

# **AIAE RESEARCH PAPER 4**

## **Fiscal Federalism, Subnational Governance and MDGs in Nigeria**



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**AFRICAN INSTITUTE FOR APPLIED ECONOMICS**

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**Eric Eboh**

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Fiscal Federalism, Subnational Governance and MDGs in Nigeria

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## Abbreviations and Acronyms

ANIDS	Anambra Integrated Development Strategy
AN-SEEDS	Anambra State Economic Empowerment and Development Strategy
CBO	Community Based Organisation
CEPO	Central Economic Planning Office
CGS	Conditional Grant Scheme
CWIQ	Core Welfare Indicator Questionnaire
CR-SEEDS	Cross River State Economic Empowerment and Development Strategy
K-SEEDS	Kano State Economic Empowerment and Development Strategy
LEEDS	Local Economic Empowerment and Development Strategy
MDAs	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
MICS	Multiple Indicator Cluster Survey
MoU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
MTSS	Medium-Term Sector Strategy
NACA	Nigerian Action Committee on HIV/AIDS
NBS	National Bureau of Statistics
NEEDS	National Economic Empowerment and Development Strategy
NGO	Non Governmental Organisation
OPEN	Oversight of Public Expenditure in NEEDS
OSSAP	Office of Senior Special Assistant to the President
RMAFC	Revenue Mobilisation, Allocation and Fiscal Commission
SEEDS	State Economic Empowerment and Development Strategy
SSG	Secretary to the State Government
UNESCO	United Nations Educational and Cultural Organisation
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Fund for Women
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
YOSERA	Yobe State Economic Reform Agenda



## **About AIAE Research Paper Series**

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## SYNOPSIS

The underlying logic of decentralisation and development has both supply and demand sides. On the supply of good governance, theorists posit that lower layers of government can better discern, and are likely to respond more efficiently and effectively to local needs and aspirations. The overarching economic postulate of fiscal federalism is that the provision of public services should be located at the lowest level of government consistent with the incidence of costs and benefits, since lower tiers of governments have greater information about local conditions and can therefore provide services that are better suited to the needs and preferences of the local population. On the demand for good governance, decentralisation is believed to provide a better way for local people to hold governments accountable.

While the MDGs are globally-enunciated development benchmarks, country-level achievement of the 2015 targets depends on appropriate and effective policies and public spending by both central and sub-national governments/authorities. Perhaps, no other setting typifies the simultaneity of opportunities and challenges for achieving the MDGs better than federal states like Nigeria where the three tiers of government (federal, state and local) have overlapping but autonomous fiscal and policy jurisdictions for basic public services that directly impinge on the MDGs. In such federal settings, progress towards the MDGs will be hindered or accelerated depending on synergy and coordination of policies and service delivery across the layers of government. In particular, because Nigeria's state and local governments ideally should be closest to the grassroots in terms of providing basic public services, their actions or inactions could impact greatly on MDGs.

Given the constitutionally guaranteed autonomy and growing exercise of fiscal and policy powers of state governments, especially since the return to democratic rule in 1999, Nigeria's federal setting exhibits right context for critically examining the impact and challenges of sub-national governments in meeting the MDGs 2015 targets. This paper therefore explores the relevance, impact and challenges of sub-national governments in the progress towards the MDGs by 2015. The central hypothesis is that policy and spending autonomy alone cannot enable a sub-national government to significantly enhance the achievement of the MDGs. It argues that fiscal and policy autonomy must necessarily be matched with governance capacities in terms of economic planning, fiscal responsibility, policy accountability and delivery of public services. Thus, the paper posits that policy and spending autonomy is a necessary but not sufficient condition for state and local governments to significantly impact the achievement of the MDGs in Nigeria. The study x-rays Nigeria MDGs status at the national and sub-national (state) levels and explores the links between the differential MDGs status of sub-national entities and their political, economic and institutional conditions.

In theory, Nigeria's state and local governments have constitutionally guaranteed autonomy for public spending, economic planning and sector policies. But, in reality, they have largely followed the MDGs policy frameworks initiated by the federal government. Evidence shows that the fiscal and policy autonomy of state governments is largely circumscribed by weak technical and institutional capacities. As a result, state governments have tended to rely on the policy dictates of the federal

government, thereby manifesting a dualistic scenario of autonomy and dependence. While expenditure decentralisation has created opportunities for more effective public service delivery including the MDGs, the effectiveness of state governments is diminished by the lack of commensurate revenue decentralisation and low fiscal and budget management capacity at the state level.

Moreover, the shortage of capacities at the state level can be linked to the fact that many states were created from existing ones without corresponding efforts in capacity building to improve human resources, policy capabilities and public service delivery. But, older states show greater policy and institutional capacities, relative to younger states. Also, because of the relatively higher concentration of more experienced public officials at the federal level, state governments generally suffer from weaker public service bureaucracies. Over time, the situation got worsened as the periodic splitting of states disrupted capacity uptake in pre-existing states while foisting less qualified and inexperienced government bureaucracies in younger states.

There is considerable variability of MDGs performance across the states and regions of the country. The variations are associated with differences in socio-cultural, economic and institutional conditions. Thus, an aggregate national picture of Nigeria's MDGs status would be erroneous, as it obscures sharp regional and local disparities. Thus, states have variable challenges and opportunities for achieving the MDGs. The situation offers benefits of mutual learning among state governments. Consequently, state governments would need to upgrade extant capacities for independent policy formulation, monitoring and evaluation within their jurisdictions. Without commensurate capacity building for MDGs-based planning, public spending and results-based tracking, the autonomy of state governments will remain merely theoretical. In conclusion, we advocate that state governments should develop the right institutional capacities matched by proper alignment of fiscal policies and service delivery. Otherwise, the constitutional autonomy of state governments will not significantly impact the achievement of Nigeria's MDGs 2015 targets.

## **1.0 INTRODUCTION**

### **1.1 The Context**

While MDGs are globally-enunciated development benchmarks, country-level achievement of the 2015 targets depends on appropriate and effective policies and public spending by both national and sub-national governments. If national and sub-national policies and measures are well-coordinated in a complementary and reinforcing manner, the achievement of the MDGs will be promoted. No other setting typifies a mixture of opportunities and risks for MDGs better than federal states like Nigeria where different tiers of government have overlapping fiscal and policy spaces. The MDGs process in Nigeria can be hindered or accelerated depending on policy synergy and complementary programmes across the tiers of government. Because Nigeria's state and local governments ideally should be closest to the people in terms of providing basic public services, their actions or inactions could impact greatly on MDGs. Given the growing appropriation of fiscal and policy autonomies by state governments (and to some extent local governments), Nigeria presents the right context for critically examining the impact of sub-national governments on MDGs.

Within a federation, fiscal and policy roles and responsibilities are shared between central and sub-national governments. While fiscal federalism refers to sharing of revenue powers and expenditure functions, policy federalism connotes distribution of policy roles and responsibilities between central and sub-national governments. There are standard political and economic arguments for the practice of policy and fiscal federalism. Political arguments often relate to dealing with heterogeneity (e.g. multiple-ethnic nationalities and regional differentiation) within countries and the imperative of accountable, responsive and effective governance. On the other hand, economic rationale is usually based on the need to achieve fiscal accountability, distributional equity, allocative efficiency and harness economies of scale (Musgrave and Musgrave, 1976) towards ensuring efficient use of public resources (Alade et al., 2003). On this premise, the federation defines the system of government whereby revenue powers and expenditure responsibilities/development functions are shared among the tiers of government, for example, federal, state and local governments in Nigeria.

While these premises are logical, a federation is usually faced with several challenges including intergovernmental fiscal relations, policy coordination and public accountability. In a federation, the constitution delineates powers and responsibilities for different tiers of government. The actions of the central government may directly or indirectly affect the sub-national governments and vice versa (Ajakaiye, 2008). The sharing of powers and responsibilities and the exercise of them can raise tensions, tendencies and conflicts that are counter-productive. The Nigeria example is instructive. Fiscal decentralisation allows autonomy for state and local governments to decide expenditures for providing public services. Moreover, more than half of consolidated public spending (including for MDGs) is accounted for by states and local governments. But, over the years, the lack of fiscal coordination between the central and sub-national authorities tended to undermine sound public spending, macroeconomic stability and sustainable economic growth. It is often argued that there is lack of correspondence between the spending responsibilities and tax powers/ revenue sources assigned to the different levels of government (Ajakaiye, 2008; Ekpo and Englama, 2008). Many

public services bearing on the MDGs (for example, health, education, agriculture, environment and poverty-reducing interventions), are statutorily concurrent responsibilities of the federal, state and local governments. The situation raises the risks of overlapping and duplication of policy spaces and consequent waste of government's scarce resources in the absence of strong horizontal and vertical coordination of public spending and sector policies.

As a federation comprising the federal government, 36 state governments, federal capital territory (FCT) and 774 local governments, Nigeria has a total 812 separate political jurisdictions, synonymous with 812 different centres of policy decision-making and resource allocations. The basic principles of the sharing of roles/responsibilities are broadly enshrined in the country's supreme law - Constitution of the Federal Republic of Nigeria 1999. In the Constitution, the Exclusive List contains the functions reserved for the Federal Government only. On the Concurrent List, both the Federal and State governments could function, however, when there is a conflict, the Federal Government shall prevail. The functions reserved for the states are found in the Residual List; they are functions not assigned to Local Governments and neither contained in the Exclusive and Concurrent Lists.

By the Constitution of the Federal Republic of Nigeria 1999, the responsibility for MDGs-related public services is shared among the federal, state and local governments. Notable among them are economic planning/management, agriculture, education, health and social welfare. Given the constitutionally-assigned preoccupation of the federal (central) government with universal issues like defence, security, foreign affairs and macroeconomic policies, achieving the MDGs in education, health and poverty reduction will largely depend on the efforts of state and local governments. But, ironically, state governments evidently lag behind in policy and institutional reforms designed to promote the MDGs. Despite recent examples of the federal government, many state governments still lack strong institutional framework needed to effectively mobilise and utilise public resources and enhance public service delivery for the MDGs. The potentials of state governments in accelerating the national march to 2015 are largely untapped.

So, without corresponding good governance, fiscal accountability and policy responsibility at the state level in Nigeria, decentralisation *per se* will not effectively promote the achievement of the MDGs. Governance capacity, institutional coordination and effective service delivery are therefore crucial if state governments are to significantly accelerate the march to the MDGs. MDGs-oriented reforms of the federal government could be compromised by incommensurate and poorly designed state-level MDG-promoting policies and programmes. But, it is arguable if these preconditions are currently evident in the present Nigerian situation. The situation underscores the need to investigate whether fiscal and policy autonomy of state governments is being leveraged for achievement of the MDGs targets.

## **1.2 Objective of the Study**

Within Nigeria's federal context, this study explores the relevance and impact of sub-national governments in the progress towards the MDGs by 2015. The hypothesis of the study is that policy and spending autonomy alone cannot enable state and local governments to significantly enhance the achievement of the MDGs. Fiscal and policy autonomy must necessarily be matched with the right governance capacities in terms of economic planning and management, fiscal responsibility, spending effectiveness, policy accountability and democratic responsiveness. Thus, the study proposes that policy and spending autonomy is a necessary but not sufficient condition for state and local governments to significantly impact upon the MDGs in Nigeria.

## **2.0 METHODOLOGY AND SIGNIFICANCE OF THE STUDY**

### **2.1 Data Collection**

The study used mostly existing data from federal and state government ministries, departments and agencies (MDAs) as well as those from international development agencies involved in supporting policies and programmes for MDGs. The study collected and analysed data relating to several factors and situations. They include policy roles and responsibilities of federal, state and local governments; fiscal federalism and impact on policy coordination, fiscal responsibility and public spending; revenue sharing and public spending across federal, state and local governments; MDGs status at the national level; MDGs at the state level; and institutional and policy capabilities of federal and state governments.

Specifically, data was collected from the national statistical agencies including the National Bureau of Statistics, Federal Ministry of Education, Federal Ministry of Health, National Planning Commission, National Action Committee on HIV/AIDS, Office of the Senior Special Assistant to the President on MDGs and relevant international bodies including UNDP, UNICEF, UNIFEM and UNESCO in Nigeria.

### **2.2 Analytical Framework**

The analytical framework is based on the juxtaposition of the theoretical autonomy (powers and roles) of state governments alongside the empirical (ground-truth) exercise of the autonomy for the production of public goods and services. Data analysis was based on mostly descriptive tools including means and percentages. Functional comparisons were done by cross-matching states' MDGs status with the geo-political, fiscal and social-economic characteristics of the states. Within the analytical framework, the study also x-rays Nigeria MDGs status at the national and sub-national levels and explores the factors and circumstances that are potentially implicated in the differentiation of MDGs status across states/regions. The correspondence (or lack of) between the States' MDGs status and their characteristics constitutes the bases for deductions about the implications of sub-national governments for the attainment of the MDGs.

The paper reports case studies of 6 states, from across the six geopolitical zones of the country. The states are Anambra (South-East zone), Cross River (South-South zone), Osun (South-West zone), Jigawa (North-West zone), Yobe (North-East Zone) and Kano (North-West zone). The case studies examine the state-level capacities for the formulation, implementation and monitoring of MDGs-consistent policies.

## **2.3 Structure of the Paper**

The paper has eight sections. Section One is the Introduction. This section contains the background information about the key questions and focus of the study. It also describes the objectives and motivation of the study. Section Two describes the methodology of the study as well as the policy significance or anticipated impact of the findings. Section Three reviews the theoretical literature on decentralisation, fiscal federalism and development in relation to the roles of sub-national layers of government. Section Four examines the MDGs in Nigeria from the mirror of intergovernmental sharing of fiscal powers and development responsibilities. Section five reports the case studies of six states from across the six geopolitical zones of the country. The case studies assess the state of MDGs implementation and monitoring at the state level. Section Six examines the fiscal and budget management capacity at the state level in relation to the achievement of the MDGs in Nigeria. Section Seven describes the variation of MDGs status across the six geopolitical regions and the states and identifies some factors and conditions that could be implicated in the observed variations. Section Eight gives the conclusions and policy implications of the study

## **2.4 Policy Significance of the Study**

### ***2.4.1 The MDGs as Important Rallying Framework for Good Governance***

The Millennium Development Goals are the world's time-bound and quantified targets for addressing extreme poverty in its many dimensions—income poverty, hunger, disease, lack of adequate shelter and exclusion—while promoting gender equality, education, and environmental sustainability. They are also basic human rights—the rights of each person on the planet to health, education, shelter, and security as pledged in the Universal Declaration of Human Rights and the UN Millennium Declaration (United Nations Millennium Project, 2005).

For the international political system, the MDGs are the fulcrum on which development policy is based. For nation-states, they constitute the yardstick to assess governance, whose generic goal is to maximize social and economic welfare for the people. It provides the Governance is the mechanism whereby government exercise statutory powers through its economic, social and political institutions. The goal of governance is to maximise national social and economic welfare of the citizens. Within the governance framework, the global Millennium Development Goals (MDGs) have become crucial development benchmarks upon which citizens within their countries can hold their governments accountable. All over the world, governments are faced with the challenge of continuously improving the capacity of its institutions to manage resources in an accountable and

efficient manner; to formulate, implement and enforce sound policies; to provide efficient regulatory framework and to deliver effective public services. At both federal and state levels in Nigeria, the capacity of governments to formulate, implement and monitor policies and regulations is critically dependent on the quality and capabilities of the government institutions which are usually referred to as Ministries, Departments and Agencies (MDAs). The public service, comprising the civil service and the enlarged public bureaucracy, is an essential pillar of a modern nation state for promoting good governance and ensuring sustainable development.

One of the most important and enduring competitive advantages that a country can have in this age of globalisation is an effective, dynamic and responsive public service. There is ample literature which demonstrates that there is strong correlation between a country's competitiveness or prosperity and the quality of its public sector. Without effective and efficient MDAs, government is unable to translate its vision and aspirations into sound policies, concrete programmes and desirable results for social and economic progress. Neither is the achievement of MDGs 2015 targets possible without effective and efficient MDAs that provide needed basic services like water, sanitation, education and health. This is because the MDAs constitute the critical interface between the government and the people. The way and manner the MDAs perform their statutory functions affects the functioning and effectiveness of the social and economic machinery of a country and by implication the achievement of MDGs. The findings of this study will provide critical insights on strengths, weaknesses, constraints and opportunities of sub-national governance as a whole and in particular for achieving the MDGs.

#### ***2.4.2 Wider Implications for the Practice of Federalism in Nigeria***

Over the past decades, many developing countries, particularly federal and quasi-federal settings, have witnessed increased constitutional transfer of fiscal authority and policy responsibilities to sub-national jurisdictions. Even in non-federal states, there has been a growing movement towards greater fiscal decentralisation in recent years. Some analysts have associated the trend with globalisation, deepening democratisation as well as increased demand for local and regional autonomy within countries. Decentralisation of social and development responsibilities has become an important feature of political and economic reforms in many countries. The extent and nature of decentralisation differs from one country to another, depending on constitutional and political contexts. Decentralisation is considered as necessary to ensure that public spending produces equitable, sustainable and cost-efficient social and economic development outcomes. Decentralization has thus translated into a growing role for sub-national governments, not only financially but administratively and politically as well, in the national efforts to hasten progress towards the MDGs.

Despite the growing share of sub-national government spending, which accounts for almost 70 per cent of poverty-reducing spending in some countries, evidence is scant on their contributions to achieving the MDGs. With less than eight years to the 2015 target date, Africa's progress towards the targets of the MDGs has been slow and unimpressive, and there is a risk that many countries of



the region will not meet all the goals by the target date. Given the enormous challenge therefore, it is crucial to harness the growing potentials of sub-national jurisdictions for scaling-up efforts towards the MDGs. Designing sound strategies for scaling-up will however require proper understanding of the role, constraints and weaknesses of sub-national governments in relation to the MDGs.

The study examines the national MDGs status through the sub-national mirror. The sub-national mirror of MDGs is important for unmasking the disparities that are often obscured by national aggregate indicators. By exploring the factors and conditions that may be responsible for differential performance on MDGs indicators by state governments and geopolitical regions, this paper will provide in-depth explanation of why some states are doing well and others are not doing well as well as what is working or not working at the state level.

The explanation offered by this study will improve understanding of the role of state governments in the national achievement of the 2015 targets. Also, by comparing MDG indicators across state governments and/or geopolitical regions, the paper would provide critical insights on what and how Nigerian sub-national jurisdictions (particularly, state governments) can learn from one another towards improving their respective MDGs status. The findings from this study will form crucial input into the lingering national debate about fiscal federalism and the related questions on the sharing of roles and responsibilities among the tiers of government.

### **3.0 THE THEORETICAL DISCOURSE IN PERSPECTIVE**

#### **3.1 The Evolution of the Decentralisation Discourse**

Development economics literature is replete with theoretical discourse on the principles and practice of decentralisation of public services to lower layers of government within a country. A growing body of the discourse associates decentralisation with the global imperatives of democratisation, policy accountability and effective public services. Decentralization is not a new phenomenon in Africa or elsewhere. However, in recent decades, particularly within the neo-liberal context, there has been renewed advocacy for decentralization, by the Bretton Woods institutions such as the World Bank and International Monetary Fund, as a vehicle for the promotion of a variety of development objectives (World Bank, 2000). Decentralisation questions are now central in the conceptual analyses of fiscal federalism, good governance, economic development and poverty reduction (Bahl, 1999).

Over time, the literature on decentralisation (including fiscal federalism) has evolved in tandem with the empiricism of political-economic development. Currently, the discourse has extended to the role of decentralisation in meeting the MDGs by 2015 (Ekpo and Englama, 2008). In fact, decentralisation (and its varying forms of devolution of power and responsibilities) is considered as important framework for promoting economic reforms, governance and development in developing and transition economies.

There is general consensus in the literature that political and non-economic factors play equally critical roles in shaping decentralisation to or autonomy of sub-national governance within a country. This school calls for more nuanced analysis of decentralisation and autonomy within the unique country contexts defined by political-cum-economic experiences and nationhood negotiations. Such an approach, it is argued, will yield a better and more complete understanding of the country strengths, weaknesses, constraints and opportunities in promoting social and economic development (including the MDGs) within the framework of extant power relations between central and sub-national authorities.

#### **3.2 Defining Decentralisation**

Decentralisation has been defined as the process by which a central government formally cedes powers to actors and institutions at lower levels in a political-administrative and territorial hierarchy (Mawhood 1983; Smith 1985). It refers to a politico-administrative arrangement entailing the transfer of the authority to plan, make decisions and manage public functions from the central government to subordinate organisation, agencies or units of government, either geographically or structurally (Anyanwu, 1999). The concept can be mirrored as stages along a continuum differentiated by the types and degrees of autonomy exercisable by the lower layers of authority within a country. At the lower end, there is mere administrative or bureaucratic delegation or devolution of fiscal and service delivery functions by the national government to lower authorities (may not necessarily be called

governments). Examples are given by unitary states. At the upper end is a situation where the lower tiers of government enjoy clear-cut statutory autonomy of governance within the framework of constitutionally-enshrined or legislated sharing of fiscal and policy powers and responsibilities. This is the case in federal or quasi-federal states. Ranging from the lower through the upper end are theoretical varieties of delegation, autonomy and power sharing which underpin relations between the central national government and the lower authorities. For example, countries such as Ethiopia, Ghana, Mali, Namibia, Nigeria, Senegal, South Africa and Uganda have National Constitutions that are explicitly pro-decentralization and formally recognize the existence of local government (Ribot, 2002).

### **3.3 Forms of Decentralisation**

There are many attempts in the literature to clearly distinguish between varieties of decentralisation in order to avoid misconception. Political or democratic decentralisation occurs when powers and resources are transferred to authorities representative of and downwardly accountable to local populations (Manor 1999; Crook and Manor 1998; Agrawal and Ribot 1999). As an institutionalized form of the participatory approach, democratic decentralisation is the strongest form of decentralisation regarding which theory attributes the greatest benefits (see, for example, Oyugi 2000). It coheres with fiscal decentralisation whereby sub-national governments or authorities have the powers to mobilise revenues and carry spending functions within clearly defined constitutional framework (Anyanwu, 1999). Decentralisation in this sense goes hand in hand with the principle of sharing fiscal powers, which is the tenet of fiscal federalism. On the other hand, deconcentration or administrative decentralisation refers to a situation where the central government transfers power to sub-central (local) administrative organs which are upwardly accountable to the central government. Notwithstanding some elements of downward accountability, (see Tendler 2000), their primary responsibility is to central government (Oyugi 2000; Manor 2000). In practice, administrative decentralisation exists when most taxes are raised centrally, but funds are allocated to local authorities to carry out spending functions as agents of the central government in accordance with guidelines or controls imposed by the central government. Under this arrangement, there is no autonomy for the sub-national authorities. Both political and administrative decentralisation are characterised by varying levels of fiscal decentralisation in terms of the ceding of some fiscal resources and revenue-generating powers to lower layers of government (Agrawal and Ribot 1999).

### **3.4 Unitary Vis-à-Vis Federal States: Opposite Sides of the Continuum**

Unitary and federal states are good examples for illustrating alternative varieties of the decentralisation phenomenon. In unitary states where power, roles and functions are merely administratively delegated, the lower authorities tend to act as mere agents, conduits or surrogates of the central national government. This is a weak form of decentralisation because the downward accountability relations from which many benefits are expected are not as well defined as in democratic or political decentralization.

But, in federal or quasi-federal settings, the sub-national governments have unambiguous responsibility, depending on jurisdiction sharing patterns. Given the sovereign status of national governments, sub-national governments can exercise autonomy to the extent defined by the National Constitution. While they are accountable for certain kinds of public policies, social and economic services, there is, in many instances, jurisdictional spill-over between the central and sub-national governments. Under such arrangements, both the central and sub-national governments have concurrent (overlapping) responsibilities and functions in designated development jurisdictions, while the central government has exclusive jurisdiction in designated sovereign functions and responsibilities, for example, macroeconomic stabilisation, foreign relations and defence. In federal settings, significant fiscal functions (revenue generation and expenditure functions) are shared between the central and lower levels of government. Some examples include United States, Australia, Canada, Brazil, Switzerland, Germany, Nigeria and India.

### **3.5 Functional Spheres of Decentralisation**

Theoretical literature identifies three broad functional arenas for decentralisation from the central to sub-national authorities. They are fiscal powers, policy responsibilities and service delivery roles. These functional spheres are founded in the classic public finance framework (Musgrave, 1964; Musgrave and Musgrave, 1976)). The Musgrave framework delineates three core government functions to include stabilisation, distribution and allocation. Stabilisation involves using tax, spending and monetary policies to influence economic activity. Distribution involves policies on redistribution of national income and wealth for equitable development. Allocation involves assignment and use of public resources (spending) to produce public goods and services. The way and manner in which stabilisation, distribution and allocation powers are shared between national and sub-national authorities remains the lingering focus of the theories on decentralisation, public finance and economic development. In reality, different countries practice different variants of decentralisation through varying mixes of shared governance powers and responsibilities for fiscal, policy and service delivery matters. Though decentralisation is practiced differently in different countries, the theoretical justification is based on common political economy principles (see Musgrave, 1964; Musgrave and Musgrave, 1976; Oates, 1999). Besides the intrinsic democratic value of decentralisation, literature acknowledges the role of decentralisation as a potent means of social and economic empowerment towards greater citizen's demand for accountability (Oates, 1972; James 2003; Ekpo and Englama, 2008). Decentralisation has great potential to improve the production and supply of local public goods and services. But, this depends on whether local jurisdictions are able to exploit their physical and functional closeness to the people in getting better understanding and perception of local needs for public services (Ekpo and Englama, 2008).

### **3.6 Decentralisation as an Economic Optimisation Tool**

Economic-side theories of fiscal federalism stress the imperatives of promoting growth, optimal use of national resources and economic development by ensuring a proper alignment of development responsibilities and fiscal powers. The proposition is that achieving economic efficiency and welfare maximisation requires an optimal balance of fiscal and policy jurisdictions between central and sub-national authorities. Economic arguments for fiscal federalism are founded on the theories about the role of the state in maximising social welfare. The theories emphasize that different layers of government have comparative advantages (in terms of capacity and efficiency) for providing different kinds and levels of public goods. It is argued that the role of the state in maximising social welfare necessitates that governance be decentralised in a manner that locally-consumed public goods (that is, public goods not national in character) should be produced by respective local jurisdictions. According to the decentralisation theorem, the production of local outputs for local demands by local authorities, rather than by central authorities, constitutes the building blocks for maximising national social welfare. Where the consumption of a public good is circumscribed or dominated (through default or design), by spatial or geographical scope, there is economic merit for lower jurisdictions to assume responsibility. But, in the Musgrave framework (Musgrave 1964), “finance must follow function”, that is, expenditure functions should be matched with revenue powers.

### **3.7 The Governance Value of Decentralisation**

Beyond pure economic reasons, however, some theoretical models view the autonomy of sub-national governments or decentralisation by central governments as an expression of the political economy in any country. Conventionally, decentralization is recognised to reduce ethnic conflict and secessionism by giving groups control over their own political, social and economic affairs (Ornstein and Coursen, 1992; Kaufman, 1996; Lijphart, 1977, 1996; Lustik, Miodownik and Eidelson, 2004; Tsebelis, 1990; Horowitz, 1991; Gurr, 2000; Stepan, 1999). From the perspective of political governance value (Oates, 1999), decentralisation is a potentially critical tool for managing within-country heterogeneities, reduce power-sharing tensions and cater for divergent needs of the different nationalities/societies within a country. In practice, however, decentralization has been more successful in reducing ethnic conflict and secessionism in some democracies than in others.

Political decentralization has been very successful in curbing ethnic conflict and secessionism in Belgium, India and Spain, for example, but has been much less successful in curbing ethnic conflict and secessionism in Nigeria and Indonesia (Ribot, 2002). It is posited that the status of autonomy and/or decentralisation has decisive influence on the allocation of fiscal, spending and decision-making powers between the central and sub-national authorities. The dynamic interplay of political and economic considerations in the allocation of public sector finances and functions/responsibilities is the object of continuing debate on fiscal federalism. Within the political economy framework, theoretical schools are quick to point out that the ideal scenarios contemplated under economic efficiency arguments are often interfaced by political considerations and historical exigencies.

### **3.8 Risks of Decentralisation**

The other side of the debate on decentralisation emphasizes the dangers and risks to political stability, economic governance and fiscal stability. Literature identifies several situations whereby decentralisation can bring about sub-optimal political and economic results (see Tanzi, 1995). Some schools posit that political decentralization might not reduce ethnic divisions and secessionism. Rather, it could aggravate them by providing platforms for canvassing regional/ethnic identities, enacting discriminatory regional legislations and emboldening regional or local groups with resources to intensify ethnic conflicts and secessionism (Brancati, 2005). Local people may lack good quality information or organised political platforms to pressure lower tier of government to make resource-efficient decisions. The quality of national-level bureaucracies is more likely to be better than lower tier bureaucracies. Current developments in technological revolutions and increased labour mobility may reduce the scope of public goods that are truly local in nature. Where the degree of revenue decentralisation does not match the degree of expenditure decentralisation, there is a situation of vertical fiscal imbalance (Herber 1979; Anyanwu, 1999) and sub-national authorities may find face fiscal capacity constraints in delivering critical local public services.

### **3.9 Decentralisation and Institutional Factors– Accountability, Alignment and Coordination**

While the question about which layer of government produces which public services remains relevant, the more underlying factor is how to organise joint production of the services by the various layers of government. Moreover, some analysts argue that lower tiers of government lack well-developed public expenditure management systems for ensuring sound tax and budget choices. Where there is lack of synergy and coordination across the tiers of government, fiscal decentralisation may circumscribe the central government's ability to deal with structural imbalances and ensure macroeconomic stability. Some theoretical strands argue that decentralisation can increase fiscal inequities across the layers of government (Prud'homme, 2001). One vivid example is the apparent imbalance between financial responsibilities (expenditure functions) and financial resources (revenue powers) across the federal, state and local governments in Nigeria. Where there is mismatch between spending responsibilities and resource allocation among the tiers of government, it is difficult to achieve optimal development outcomes including the MDGs (Ajakaiye, 2008). Decentralization of responsibilities has not always been accompanied by a decentralization of resources allocation authority (Khemani, 2001). In a study of three countries- Mali, Nigeria and Uganda, Diarra (2003) found that theoretically, several responsibilities and powers have been formally decentralized or devolved, but in practice, the transfer of financial, material and human resources from the central government toward the lower echelons of local government has been slow and in several instances very sporadic. Besides, the almost exclusive reliance of sub-national governments on federal transfers creates conditions for lack of accountability as they may shift blame and responsibility for service delivery to higher tiers of government that control the bulk of government revenues. For the same reason, the local constituents may be reluctant to hold them accountable if they perceive them as having no financial resources to deliver the goods. On the

other hand, the over-dependence on federal resources may ease budget constraints and cause misallocation of resources.

#### **4.0 NIGERIA'S FISCAL FEDERALISM AND THE MDGs**

##### **4.1 Nigeria Federalism in Historical Perspective**

Nigeria's federal structure dates back to the British colonial government when in 1954, it adopted the federal system through the provisions of the Constitution largely in response to nationalist agitations for constitutional reforms as part of the clamour for political independence. The federal constitution of 1954 provided fiscal autonomy to Nigeria's three regions (North, West and East) both over expenditure decisions and over a local revenue base (consisting primarily of mining rents, personal income tax, and receipts from licenses). Centrally collected revenues, primarily from export, import and excise duties, was distributed to the regions according to the derivation principle. Nigeria's federal units grew from three to four regions during 1960-6. In 1967, the regions were split into a total of 12 states. In 1976, the country implemented reforms bordering on local government administration. The new arrangement which appeared to recognise local governments as the third tier of government drew heavily from the Brazilian experience. The reforms brought the local government system into the mainstream of the country's intergovernmental fiscal relations, with a distinct share of the federation account, among other statutorily enshrined administrative and spending powers. The impact of the reforms reflected in the enunciation of local governments as legal entities by the Constitution of the Federal Republic of Nigeria, 1979, 1989 and 1999. By 1976, additional seven states and a federal capital territory (FCT) were created, giving a total of 19 states. Successive state creation exercises increased the number to 21, 30 and 36 states in 1987, 1991 and 1996 respectively.

Even though the local government reforms of 1976 clearly articulated the idea of a three-tier federation, the 1999 Nigeria Constitution makes the creation and control of local governments a residual matter for state governments. Currently, there is some ambiguity about the status and roles of local governments as the third-tier of government (Khemani, 2001). For example, the Nigerian Constitution 1999 is rather equivocal on the autonomy of local governments in relation to the state government. Article 7 empowers the state government to enact legislation with regard to "the establishment, structure, composition, finance and functions" of democratically elected local government councils.

The Fourth Schedule of the Nigerian Constitution 1999 assigns some roles to local governments in the provision of critical basic services including primary education, health services and the development of agriculture. However, in practice, state governments exercise virtually complete responsibility in these same arenas. In many cases, the role of local governments is largely relegated to mere participation in the execution of functions. For instance, the Constitution states: "The functions of a local government council shall include participation of such council in the Government of a State as respects the following matters: (a) the provision and maintenance of primary, adult and vocational education; (b) the development of agriculture and natural resources,

other than the exploitation of minerals; (c) the provision and maintenance of health services; and (d) such other functions as may be conferred on a local government council by the House of Assembly of the State” Hence, critical basic public services which determine the MDGs status -primary education and health, water and sanitation -are given as responsibility of the state and local governments without clear distinction.

The contradiction regarding the status of local governments is even more pronounced in the handling of revenues. Section 162 (5)-(6) of the Nigerian Constitution 1999 provides for the channelling of local government share of the Federation Account to local government councils. It specifically states that “the amount standing to the credit of local government councils in the Federation Account shall be allocated to the states for the benefit of their local government councils on such terms and in such a manner as may be prescribed by the National Assembly” and that “each state shall maintain a special account to be called State Joint Local Government Account into which shall be paid all allocations to the local government councils of the state from the Federation Account and from the Government of the State”. Because of ample discretionary powers allowed state governments in control of local governments, different states accord different levels of autonomy/independence to local governments. Hence, in many cases, local governments function mostly as extensions of state governments.

#### **4.2 National-Level MDGs Indicators**

Since the United Nations Millennium Declaration in 2000, the MDGs have become important tools of monitoring human progress within and across nations. In line with the global practice, Nigeria undertakes a periodic monitoring and review of progress towards the MDGS through a series of annual MDGs progress reports. Currently, there are three successive annual Nigeria MDGs reports published for 2004, 2005 and 2006. Nigeria is also undertaking a National MDGs Costing Exercise in eight key sectors (agriculture, health, education, roads, energy, water resources, environment and housing). The results would provide a good basis for estimating the cost of achieving the MDGs in the country.

Progress towards the MDGs at the national level in Nigeria has been reported every year through the Nigeria MDGs Report Series in 2004, 2005 and 2006. While the 2004 Report states that it is unlikely that the country will be able to meet most of the goals by 2015 especially the goals related to eradicating extreme poverty and hunger, reducing child and maternal mortality and combating HIV/AIDS, malaria and other diseases. The 2005 MDGS Report indicates that there is high potential to attain some of the MDG targets, namely; achieving universal primary education, ensuring environmental stability and developing a global partnership for development. The Report was less optimistic about the MDGs targets on eradicating extreme poverty and hunger, achieving gender equality and women empowerment, reducing child mortality, improving maternal health and combating HIV/AIDS, malaria and other diseases. Similarly, the 2006 Report shows that Nigeria has the potential to achieve some of the goals, especially those related to universal primary education, combating HIV&AIDs, ensuring environmental stability and developing a global partnership. But, like



other Reports, the 2006 Report shows concern about the slow pace to the MDGs targets on reducing child and maternal mortality. Nigeria's progress towards the MDGs till 2007 is summarised in Appendix I.

### **4.3 MDGs-Oriented Reforms at the Federal Level**

The Federal Government of Nigeria has since 2004 promoted the MDGs on the platform of the national medium-term economic framework, known as National Economic Empowerment and Development Strategy (NEEDS). The NEEDS is the policy framework guiding the design and implementation of economic and institutional reforms, aimed at poverty alleviation, wealth creation, employment generation and value reorientation. The cardinal policy thrusts of NEEDS are: creating appropriate macroeconomic framework; changing the way government does its work; promoting private enterprise; and empowering people. For example, the operation of fiscal policy in Nigeria under the reform programme has revolved around the adoption of the oil-price based fiscal rule, which saves any earnings above the benchmark price in a common account known as excess crude account for all tiers of government.

The federal level institutional framework is underpinned by the creation of the Office of the Senior Special Assistant to the President (OSSAP) on the MDGs to coordinate and monitor MDGs policies and programmes throughout the country. In September 2005, Nigeria successfully negotiated debt relief from the Paris Club of creditors worth US\$18 billion. It was the largest debt relief in Africa and the second in the world, next only to Iraq. The deal released roughly US\$1 billion or ₦100 billion per year for spending by the Nigerian Government. An important feature of the debt relief pact is that debt relief funds would be channelled to pro-poor projects that would help Nigeria achieve the MDGs. Freed resources from Nigeria's debt relief, that is, annual savings from debt servicing amounting to about \$1 billion, with a federal government share of \$0.75 billion would be channelled to poverty-reducing and MDGs programmes. Tied to this is the enunciation of Oversight for Public Expenditure in NEEDS (OPEN) embodying Virtual Poverty Fund Mechanism. The mechanism was designed to track utilisation of MDGs resources and ensure compliance with international best practices. This would be an addition to the existing pro-poor spending. The debt relief gains will be tagged, tracked and monitored to ensure that the spending is effective. In the 2006 fiscal year, for example, OPEN was piloted by 10 government ministries, departments and agencies (MDAs): the Ministries of Health, Education, Water, Agriculture, Power, Works, Housing, Environment, Women Affairs and Youth.

Public spending is a crucial tool for creating and maintaining public goods and services related to the MDGs. All the three tiers of government spend public money to actualize policy objectives in line with their respective budgets. Below is the outlook of federal government MDGs-related expenditures (Table 1).

Table 1: Outlook of Federal Government's MDGs-related expenditure

	2003	2004	2005	2006	2007	5-year average (2003-2007)
<sup>1</sup> Capital spending as % of total spending	18.60	23.35	27.06	27.11	35.16	26.26
Recurrent spending as % of total spending	81.4	76.65	72.94	72.89	64.84	73.74
Capital spending on education as % of total capital spending	6.07	2.59	6.14	5.92	8.99	5.94
Recurrent spending on education as % of total recurrent spending	6.60	6.89	6.27	8.55	8.61	7.38
Capital spending on health as % of total capital spending	2.65	5.18	4.19	5.83	5.50	4.67
Recurrent spending on health as % of total capital spending	3.39	3.07	4.22	4.48	5.64	4.16

*Source: Central Bank of Nigeria Annual Reports.*

As seen from Table 1, over the period 2003-2007, on the average, federal government's recurrent expenditure gulped about 74% of total spending while the rest was capital expenditure. The combination of recurrent and capital expenditure is an important reflection of the underlying fiscal circumstances of the government. Better understanding of these underlying conditions in relation to intergovernmental fiscal relations is essential for articulating an optimal mix of capital and recurrent expenditures for realising the MDGs 2015 targets.

#### 4.4 Rising Revenue Profile of Sub-National Jurisdictions

##### 4.4.1 Increased Fiscal Decentralisation

Currently, sub-national governments have increased share of Nigeria's revenues. Unlike the pre-1999 situation, state and local governments currently enjoy wider policy and fiscal spaces, courtesy of increased fiscal decentralization and changes in revenue sharing arrangements occasioned by the Nigerian Constitution 1999. In terms of revenue-generating taxes, out of the 39 different taxes and levies approved by Taxes and Levies (Approved List for Collection) Act 21 of 1998, state and local governments are statutorily responsible for the collection of 80% of the total number. But, in value terms, state and local governments collect far less percentage of total tax revenue in the country. This is because the bulk of high-earning tax items are within the exclusive purview of the federal government, for example, import and excise duties, mining rents and royalties, petroleum profit tax, company income tax and value added tax.

On the other hand, states and local governments receive substantial amount of resources as constitutionally guaranteed transfers from the Federation Account. Total revenues of state and local governments was, on the average, over 5 percent of GDP between 1990-1999, and over 10 percent of GDP after the oil price increase in 1999 (Khemani, 2001).

<sup>1</sup> This excludes the \$1billion set aside annually from the debt relief savings for MDGs expenditures in the states.

#### 4.4.2 Revenue Sharing among the Three Tiers of Government

One of the key features of Nigeria's fiscal federalism is the distribution of revenues among the federal, state and local governments. The significant sequential developments in revenue allocation formula since the return to democratic governance in 1999 are outlined as follows (Jimoh, 2003 and Ekpo, 2004).

- In 1999, the democratic government inherited the revenue allocation formula that has been in existence since 1992. The formula gives 48.5% to federal government, 24% to state governments and 20% to local governments and 7.5% to special funds (which was distributed as follows: FCT 1%, Ecology 2%, Stabilisation 1.5% and Natural Resources 3%).
- While this formula was in use, the Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC) recommended to the National Assembly the formula – federal government 41.3%, state governments 31%, local governments 16% and special funds 11.7% (to be shared as follows – FCT 1.2%, Ecology 1%, Natural Resources 1%, Agriculture and Solid Mineral Development 1.5%, Basic Education 7%).
- Amidst debate on the RMAFC-recommended formula, there was the Supreme Court Verdict in April 2002 on the Resources Control Suit which nullified provision of Special Funds in any given Revenue Allocation Formula.
- In May 2002, the Federal Government invoked an Executive Order to redistribute the revenue as follows – federal government 56%, states 24% and local governments 20%.
- Following criticisms, the Federal Government in July 2002, reviewed the Executive Order as follows – federal government 54.68%, states 24.72% and local governments 20.60%.
- In March 2004, the Federal Government issued a modification which increased states' share to 26.72% and reduced federal government's share to 52.68%. This formula remains in force, until the National Assembly legislates on a new revenue allocation formula.

The trend in revenue allocation across the three tiers of government to date is summarized in Table 2 as follows.

Table 2: Vertical allocation of Nigeria's federally collected revenues since 1981

Period	% share going to			
	Federal Government	State Government	Local Government	Special Funds
*1981	55	35	10	-
1989	50	30	15	5
1993	48.5	24	20	7.5
1994	48.5	24	20	7.5
1992-1999	48.5	24	20	7.5
May 2002	56	24	20	-
March 2004 till date	**52.68	26.72	20.60	-

\*Revenue Act of 1981.

\*\* Sequel to Supreme Court verdict in April 2002 on the Resource Control suit, the provision of Special Funds was nullified in any given Revenue Allocation Formula. In addition, the nine oil producing states (Abia, Imo, Delta, Cross River, Rivers, Bayelsa, Akwa Ibom, Edo and Ondo) get 13% of total oil proceeds based on the applied derivation formula.

As shown in Table 2, states and local governments now control increased share of the federation revenue, compared to periods before return to democratic governance in 1999. The importance of state and local governments in fiscal (revenue) profile of the federation can also be deduced from statistics given in Table 3, as follows.

Table 3: Government revenue as share of GDP

Tier of Government	Revenue as Share of GDP (%)					
	2003	2004	2005	2006	2007	Annual average (2003-2007)
Federal government revenue	10.6	11.7	12.1	10.4	10.7	11.1
States governments' revenue	8.6	9.8	9.7	8.3	9	-
Local governments revenue	3.7	4.1	4.1	3.6	3.6	-
States and local governments' revenues	12.3	13.9	13.8	11.9	12.6	12.9

*Source: computed from data in CBN annual reports*

The fiscal importance of state and local governments has been significantly bolstered over time, as illustrated by Eboh et al., 2006. For example, in 1995, total state governments' revenue was mere 3.5% of GDP (Alade, 1999) compared to 9.0% in 2007. However, the macroeconomic stakes of sub-national layers of government in Nigeria are evident by the fact that total state governments' revenue had risen to 7.5% of GDP in 1980.

#### **4.5 Sub-National Governments Surpass Federal Government in Public Spending**

##### **4.5.1 Dominant Role of State and Local Governments in Public Spending**

The fiscal expansion recorded by the country since 1999 has been driven by the growth in subnational spending. The share of sub-national budget spending in the consolidated public spending increased from 23 percent in 1999 to 46 percent in 2005 (World Bank, 2007); subnational budget spending in 2005 was almost four times higher in real terms than the 1999 level. Comparatively, over the same period, spending by the federal government increased by only 35% in real terms. During 2003-2007, state and local governments together, on the average, accounted for 52.34% of total annual public expenditure in the country. On the average, state and local governments together accounted for 59.97% of total annual capital spending and 48.24% of total annual recurrent spending during the reference period. State government spending hovered about 9.0-10.0% of GDP from 2003-2007 (CBN, 2008). The relative shares of state and local governments vis-a-vis federal government in total annual public spending are illustrated as follows (Fig. 1):

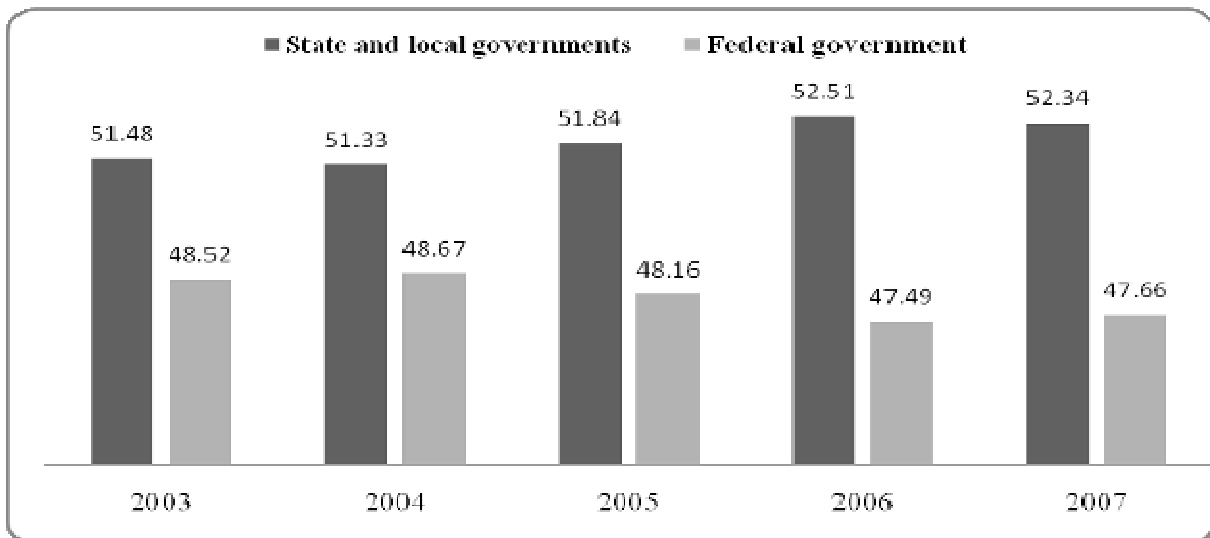


Figure 1: Share of state + local governments and federal government in total public expenditure (in per cent)

Figure 1 above shows that state and local governments account for the largest single portion of total annual public spending from 2003-2007.

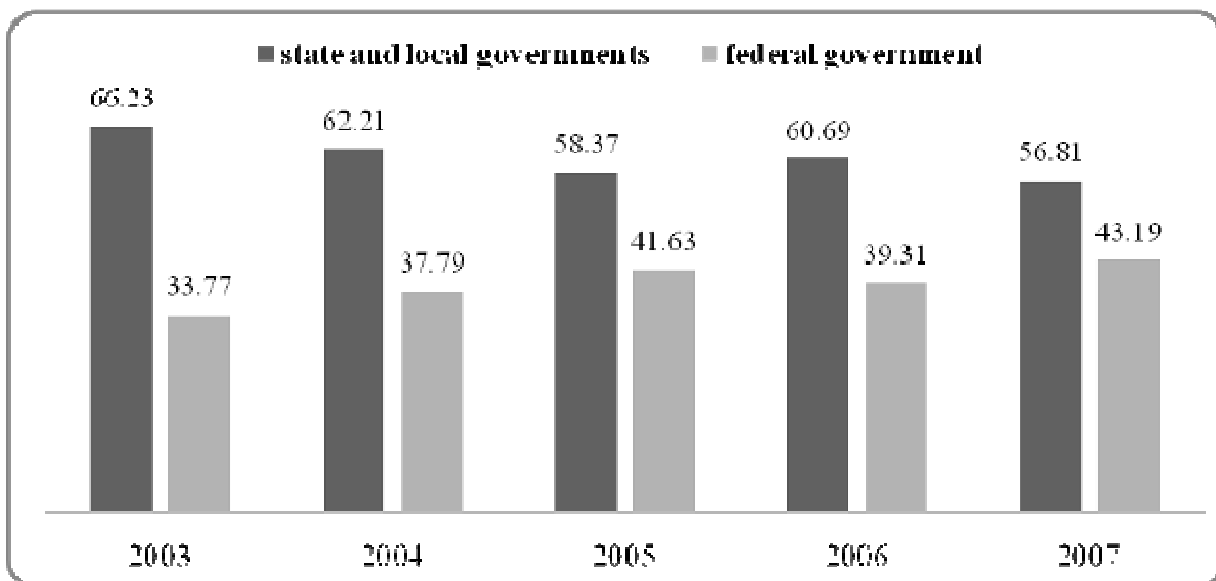


Figure 2: Share of state + local governments and federal government in total public capital expenditure (in per cent)

Fig. 2 above shows that state and local governments account for the largest single portion of total annual public capital spending from 2003-2007. Furthermore, the importance of state and local governments in public spending in the country can also be deduced from statistics given in Table 4, as follows.

Table 4: Government expenditure as share of GDP

Tier of Government	Expenditure as Share of GDP (%)					
	2003	2004	2005	2006	2007	Annual average (2003-2007)
Federal government expenditure	12.2	13.2	13.2	11	11.2	12.2
States governments' expenditure	9.3	9.9	10.1	8.5	9.3	
Local governments expenditure	3.6	4.0	4.0	3.6	3.6	
States and local governments' expenditure	12.9	13.9	14.1	12.1	12.9	13.2

The table shows that, during 2003-2007, on the average, states and local governments' expenditure together was equivalent of 13.2% of the country's GDP, compared to 12.2% for federal government. The current fiscal profile of state governments can be further appreciated given that, compared to the 9.0% for 2007, state governments total spending was mere 3.9% of GDP in 1995 (Alade, 1999). Details of the shares of different tiers of government in aggregate public spending are given in Appendix II.

#### 4.5.2 State and Local Governments Dominate Public Spending on Health and Education

Eboh et al., 2006 has provided evidence showing that in general terms, the capital spending behaviour of state governments during 2001-2005 appeared to align to the MDGs. Specifically, during 2003-2007, on the average, state governments accounted for 53.88% and 51.76% of total public spending on education and health. This is clear evidence of the critical importance of the sub-national tiers (particularly state governments) in the achievement of the MDGs. Specific details of the public spending data are shown in table 5 as follows.

Table 5: Relative size of education and health expenditures of federal and state governments

Expenditure type	2003	2004	2005	2006	2007	5-year average (2003-2007)
Capital and recurrent expenditure on education by all governments	181.09	200.36	271.22	328.8	369.45	270.184
Federal Government share (₦' billion)	79.5	85.6	114.7	151.7	205.2	127.34
Federal Government share (%)	43.90	42.72	42.29	46.14	55.54	46.12
State Governments' share (₦' billion)	101.59	114.76	156.52	177.1	164.25	142.844
State Governments' share (%)	56.10	57.28	57.71	53.86	44.46	53.88
Capital and recurrent expenditure on health by all governments	91.92	119.56	169.08	197.33	217.27	159.032
Federal Government share (₦' billion)	39.7	52.4	77.5	94.5	131.4	79.1
Federal Government share (%)	43.19	43.83	45.84	47.89	60.48	48.24
State Governments' share (₦' billion)	52.22	67.16	91.58	102.83	85.87	79.932
State Governments' share (%)	56.81	56.17	54.16	52.11	39.52	51.76

Source: Central Bank of Nigeria Annual Reports.

Table 5 shows decrease in state governments' share of total health and education spending since 2005. The decrease come amidst rising share of federal government in consolidated public spending on health and education, largely driven by spending under the Debt Relief Gains, administered by the Office of the Senior Special Assistant to the President on MDGs. For instance, the federal government spending on MDGs was boosted by additional sums of ₦99.91 billion and ₦109.47 billion in 2006 and 2007 respectively, under the OPEN initiative.

On the other hand, the details of the relative shares of the tiers of government in aggregate national public spending from 2003-2007 are given in Appendix II.

The impact of sub-national governments would be greater if the expenditures of local governments on education and health are taken into account<sup>2</sup>. But, while fiscal decentralization has enhanced the funds available for state governments to deliver public services, the gains for MDGs are largely muted. This is because increased availability of budgetary resources and public spending by state governments has not translated into better service delivery and human development (World Bank, 2007)<sup>3</sup>. No doubt, achievement of the MDGs 2015 targets will require enhanced cost efficiency of expenditures at all levels of government. But, the challenge of improving the quality of budget expenditure is more acute at the state level due to additional capacity constraints and slower progress of public financial management reforms.

## **5.0 MDGs IMPLEMENTATION AND MONITORING AT THE STATE LEVEL: SIX CASE STUDIES**

### **5.1. ANAMBRA STATE**

#### ***Social and Economic Profile***

With a population of about 4.2 million and land area of 4,887 sq km, Anambra State, located in the south east zone, is one of the most densely populated in the country. It has 21 Local Government Areas and 177 autonomous communities. It consists of clusters of urban areas which constitute 62% of the total population. These urban areas are characterised by high concentration of manufacturing and commercial activities (notably automobile works, metal fabrication, textile, plastics, merchandise trade, etc). But, in the rural areas, agriculture accounts for up to 70% of the economic activity. Males constitute about 52%, while females make up 48% of the total population.

The State has one of Nigeria's lowest poverty rates, estimated at about 32.1% in 2007 and a gini index of 48%. It has HIV/AIDS prevalence of 4.23% in 2005, infant mortality rate estimated at about

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<sup>2</sup> The expenditures of local governments were not included due to paucity of data. The data problem is symptomatic of severe fiscal capacity gaps in the local government system. Also, there are spending distortions arising from variable spending relations between state governments and their constituent local governments.

<sup>3</sup> World Bank, 2007. Nigeria: A Fiscal Agenda for Change – Public Expenditure Management and Financial Accountability Review. Abuja

88 per 1000 and under-5 mortality rate of 142 per 1000. Internally generated revenue constituted about 15% of total State revenue in 2007, while the rest (85%) came from the Federation Allocation. Net primary school completion rate is 52% while 88% of women between 15-24 years are literate.

### ***MDGs-oriented Policy and Institutions***

The policy frameworks for MDGs programme design and implementation are the Anambra State Economic Empowerment and Development Strategy (AN-SEEDS), 2005-2009, and the current policy agenda of the current administration, encapsulated in the Anambra State Integrated Development Strategy (ANIDS). On the other hand, the ANIDS contain some listing of programmes and activities anticipated by the current administration. Both frameworks are shaping the design and implementation of programmes for the achievement of the MDGs by 2015.

Economic planning is coordinated by the Ministry of Economic Planning and Development. The Ministry carries out development planning functions, capital budgeting and some limited monitoring responsibilities. Recently, the Ministry has been assigned the MDGs coordinating and liaison functions, in line with the guidelines of the OSSAP MDGs regarding the Conditional Grant Schemes. The State received a grant of ₦1.7952 billion for MDGs projects covering health, education, energy, and sanitation in different parts of the state. There is an Executive Committee that oversees the implementation of the MDGs projects in the state. The Committee is headed by the Commissioner of Finance and Budget and comprises representatives of Government House, Ministry of Economic Planning and Development, relevant MDAs sectors including health, education, local governments and public utilities. The Executive Committee works through three physical monitoring (inspection) teams in the three different senatorial zones of the state. Each of the monitoring teams includes at least one representative of civil society (that is, NGO or CBO official). According to the Year 2007 project implementation report on MDGs projects, the overall completion rate was 85%. Despite the elaborate monitoring undertaken for the MDGs projects, the monitoring is simply physical. It is not based on any systematic linking of public expenditures to MDGs achievement rates in the state.

There appears to be little collaboration and synergy between both monitoring functions. Neither the reports by the Accountant-General's office nor the reports by the Planning Research and Statistics Departments of the various MDAs are designed to show impact of public expenditures. Even though, the Ministry of Economic Planning and Development prepares and collates the capital budget estimates, it does not have a statutory mechanism to monitor capital spending and ensure value for money. However, the Office of Special Adviser to the Governor on Project Monitoring has just been created, apparently to strengthen the monitoring process and achieve greater impact evaluation of public spending. Table 6 summarises MDG-related expenditures of Anambra State government.



Table 6: Outlook of MDGs-related Expenditures in Anambra State, 2005-2007

<b>Expenditure type/ratio</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Capital expenditure as % of total expenditure	56.5	56.3	43.3
Recurrent expenditure as % of total expenditure	43.5	43.7	56.7
Actual capital expenditure on health as % of total capital expenditure	0.19	0.22	0.19
Actual recurrent expenditure on health as % of total expenditure	-	-	-
Actual capital expenditure on education as % of total capital expenditure	0.54	0.15	0.39
Actual recurrent expenditure on education as % of total recurrent expenditure	-	-	-
Actual capital expenditure on agriculture + rural development + water resources as % of total capital expenditure	0.45	0.13	0.19
Actual recurrent expenditure on agriculture + rural development + water resources as % of total recurrent expenditure	-	-	-
Actual capital expenditure on women and social development as % of total capital expenditure	0.005	0.01	0.46
Actual women and social development recurrent expenditure in as % of total recurrent expenditure	-	-	-
Actual capital expenditure on environment as % of total capital expenditure	0.16	0.18	0.54
Actual recurrent expenditure on environment as % of total recurrent expenditure	-		-

*Source: Budget and Fiscal Documents of Anambra State*

During 2005-2007, capital spending accounted for more share of total spending relative to recurrent spending. On the average, capital spending on education accounted for greater share of total spending, relative to capital spending on health.

## **5.2 CROSS RIVER STATE**

### ***Social and Economic Profile***

Located in the tropical rainforest belt of the country, Cross River State is in the south-south zone and has a population of about 2.9 million against a total land area of 23,000 sq km. The vegetation ranges from mangrove and swamp forests towards the coast, tropical rain forest further inland and savannah woodlands in the northern segments. The Obudu Plateau provides a montane-type vegetation. It is one of Nigeria's oil-bearing States and has 18 local government areas. Up to 70% of the population is engaged in the agricultural economy. The State has a rich tourist industry that has become an important revenue source and an important rally for the inflow of investment capital.

Poverty is estimated at about 55% in 2007, with a Gini index of 51%. The HIV prevalence was estimated at about 6.7% in 2005. About 14.4% of the State's public revenue comes from internal sources, while the rest is from Federation Account Allocation. Infant mortality and Under-5 mortality are estimated at about 71 per 1000 and 111 per 1000 respectively. Net primary school completion rate is 63% while 78% of women aged between 15-24 years are literate.

## ***MDGs-oriented Policy and Institutions***

Since 2005, Cross River State has been implementing economic and institutional reforms under the aegis of the Cross River State Economic Empowerment and Development Strategy (CR-SEEDS) and the derivative Local Economic Empowerment and Development Strategy (LEEDS) of the various local governments in the state. The CR-SEEDS and LEEDS seek to promote growth, diversify the economic base, create wealth and accelerate the achievement of the MDGs including the reduction of poverty.

On assumption of office in 2007, the new government launched the Economic Blueprint, 2007-2011, consisting of a 7-point priority agenda covering agriculture, tourism, education, health care, private sector growth, infrastructure development and physical environment. The Blueprint commends itself as coherent with MDGs, SEEDS and LEEDS framework. For example, the Blueprint reflects MDGs by specifying Year 2011 targets for reductions in infant, child and maternal mortality, increase in primary school enrolment rate, immunization coverage and access to information and communication technologies. The implementation strategy includes public sector reforms, local government reforms, social welfare reforms, tax system reforms and public procurement reforms. Besides participation in the OSSAP MDGs Conditional Grants Projects and the receipt of funds for MDGs-related projects in primary health care and primary education, the state has special agencies whose programmes are vital to poverty reduction. They include the Rural Development Agency, Border Communities Development Commission and Rural Electrification Commission.

In order to streamline economic planning framework, there is current effort to develop SEED-2 (2008-2011) based on the reviews of SEEDS-1 reviews and transformation of the Economic Blueprint. The four technical working committees for SEEDS-2 cover respective governance areas: policy, budget and fiscal management, service delivery and communication and transparency. The SEEDS-2 would incorporate the Economic Blueprint proposals and MDGs targets. Based on the lessons from SEEDS-1, there would be adequate costing of SEEDS-2 within the medium term expenditure framework (MTEF).

Considerable progress has been achieved in linking budget to economic plans and policies through the medium-term sector strategy (MTSS) and the associated medium term expenditure framework. Learning from the shortcomings of SEEDS-1, particularly the lack of costing and alignment to medium term fiscal strategy, the Economic Blueprint proposes wide-ranging reforms in budget and fiscal management. They include the development of fiscal strategy paper, preparation of budget manual, production of regular budget monitoring (physical and financial) reports, preparation of 4-year MTEF documentation report, development of comprehensive budget classification and chart of accounts and development of planning and budgeting database for the state. Prior to 2006, annual budgeting was based on incremental method. But, with support from USAID, the state initiated the MTSS/MTEF process in three pilot MDAs – Ministry of Education (representing social sector), Ministry of Agriculture (representing economic sector) and the Forestry Commission. These three

pilot MDAs were to develop programmes that have timeline of completion, realistic costing on a prioritised basis and outcomes within the Log Frame approach<sup>4</sup>.

While the pilot MTEF budgeting was proposed to take effect from 2007, it did not materialise. However, the process was refreshed in 2008 with series of intensive training and demonstration workshops for relevant staff of MDAs and the provision of template by the Budget Office. Currently, many MDAs have completed their MTSS and MTEF documents, under the coordination and supervision<sup>5</sup> of the Office of Budget Monitoring and Evaluation. Through the MTSS, every MDAs articulates medium-term goals and objectives aligned with the framework policies of SEEDS and MDGs, reviews existing budget commitments, identifies the key initiatives (that is, projects and programmes) that will be implemented for achieving the stated goals and objectives, costs the identified initiatives in a clear and transparent manner and determine implementation timetable and measurable outcomes linked to stated goals and objectives. The MTSS was intended to serve as operational policy documents against which the budget proposals were to be evaluated. In this context, the 2008 budget was prepared based on the MTEF alongside the policy direction strategic documents highlighted by the MTSS. In the same vein, the state adopted a new budget classification and chart of accounts based on 20-digit coding system. To further the implementation of the MTSS and MTEF process, efforts are being intensified to ensure that the MTEF documentation<sup>6</sup> report, 2009-2012, will begin with the 2009 budget, simultaneously with the adoption of SEEDS-2.

Another sphere of economic management where the state is making considerable progress is monitoring of expenditures, project outputs, outcomes and impact. Monitoring is carried out at successive stages along the policy continuum. The first level is the budget monitoring and control by the Office of Budget/Monitoring and Evaluation. There is a monitoring instrument which elicits verified spending statistics from MDAs in terms of actual and projected revenues, approved amounts, permissible rate of expenditure, returns (monthly, quarterly, six-monthly), vote-book inspection/reconciliation and computation of deviation (if any). The second level is physical monitoring of projects by the Project Inspectorate Department of the State Planning Commission, leading to the preparation of quarterly project status reports. At the third level, there is impact monitoring by the Office of the Economic Adviser to the Governor, who is also the Vice-Chair of the State Planning Commission. Impact monitoring is carried out based on the community scorecard and service gap methods. The major challenge is coordination across the three levels of monitoring, but the adoption of the MTEF-driven log-frame would contribute to the eventual development of a state-wide comprehensive monitoring and tracking framework.

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<sup>4</sup> The Log Frame approach consists of clear definition of goal, objective, initiative activity, initiative costing, activity timeline and responsibility.

<sup>5</sup> The Office of Budget/Monitoring and Evaluation provides MDAs with template outlining, among others, envelopes and ceilings, costing guide, log-frame, existing commitments (actual expenditures) and links to MDGs, SEEDS and sector policy objectives, targets and strategies. The 2008 budget call circular was issued to all MDAs based on the new budgeting approach.

<sup>6</sup> World Bank is providing technical support for preparing Budget Manual, Fiscal Strategy Paper and MTEF Documentation Report, 2009-2012.

Two significant milestones have been achieved in policy monitoring. One is the production of the Cross River State Economic Performance Review in June 2008 and the ongoing preparation of the Cross River State Year 2006 MDGs Progress Report<sup>7</sup>. The Economic Performance Review examines economic and social progress, including economic growth performance, key macroeconomic indicators (budgeted and actual revenues and expenditures, debt, investment, employment and inflation), performance of economic and social sectors and institutional developments in the economic planning process. Economic performance monitoring will be invigorated with the successful conclusion of the ongoing preparation of the state's gross domestic product (GDP) statistics. When completed, the Cross River State MDGs progress report will be the first ever state-level equivalent of Nigeria MDGs annual progress report. Besides, the state's participation in the OSSAP MDGs Conditional Grant Projects has prompted the creation of MDGs Committee which comprises, among others, the State Planning Commission, Ministries of Health, Education and Social Development. Moreover, MDGs-related MDAs prepare periodic reports which are collated by their respective Planning and Research Departments for transmission to the State Planning Commission. Table 7 summarises MDG-related expenditures of Cross River State government.

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<sup>7</sup> This is being done with support from UNDP.

Table 7: Outlook of MDGs-related Expenditures in Cross River State, 2005-2007

Expenditure type/ratio	2005	2006	2007
Capital expenditure as % of total expenditure	32.2	50.9	39.5
Recurrent expenditure as % of total expenditure	67.8	49.1	60.5
Actual capital expenditure on health as % of total capital expenditure	0.03	0.10	0.07
Actual recurrent expenditure on health as % of total expenditure	0.36	-	-
Actual capital expenditure on education as % of total capital expenditure	0.47	0.16	0.64
Actual recurrent expenditure on education as % of total recurrent expenditure	12.06	-	-
Actual capital expenditure on agric, rural devt, water resources as % of total capital expenditure	0.23	0.08	0.30
Actual recurrent expenditure on agric., rural devt., water res. as % of total recurrent expenditure	0.10	-	-
Actual capital expenditure on women and social devt. as % of total capital expenditure	0.06	0.04	-
Actual women and social devt. recurrent expenditure as % of total recurrent expenditure	0.01	-	-
Actual capital expenditure on environment as % of total capital expenditure	<0.001	0.07	-
Actual recurrent expenditure on environment as % of total recurrent expenditure	0.02	-	-

*Source: Budget and Fiscal Documents of Cross River State*

Over the period 2005-2007, recurrent spending accounted for greater share of total spending in Cross River State. The share of capital spending on education in total capital spending was considerably higher than that for health, during the period.

### 5.3 ANAMBRA STATE

#### *Social and Economic Profile*

With a total population of about 4.3 million and a land area of 22,410 sq km, Jigawa State is located in the north west of the country. Most of the state lies within the Sudan Savannah and average annual rainfall has hovered around 600-700 over the years. It is characterised by sand dunes over undulating land, and is predisposed to desert encroachment and land degradation. It has 27 local government areas and over 80% of the population makes livelihood from agriculture and related activities.

The State has one of the highest poverty levels, estimated about 91% in 2007. Infant mortality and under-5 mortality were estimated at about 101 per 1000 and 166 per 1000 respectively. The HIV prevalence rate is 2% and net primary school completion rate is 25%. Only 10% of women aged 15-24 years are literate.

### ***MDGs-oriented Policy and Institutions***

The main policy platform for programme formulation and implementation towards MDGs has been the Jigawa State Economic Empowerment and Development Strategy (JIGAWA SEEDS), 2005-2007. As the term of the SEEDS has ended, the State's Directorate of Budget and Economic Planning is coordinating the process of developing a successor economic and development plan. The new plan will incorporate elements of the 3-point agenda of the current government which are: education, water and sanitation and health. Meanwhile, there are two additional sector plan documents which are shaping MDGs programming in the state. One is the five-year health sector strategic plan, 2008-2012, prepared with assistance from DFID. The other is the four-year education sector strategic plan, 2007-2010, prepared with assistance from UNESCO.

The institutional arrangement for MDGs monitoring is driven by the Memorandum of Understanding (MoU) signed between the OSSAP MDGs and participating states. The MoU requires the state to create special MDGs coordination and monitoring departments or units and to render periodic project implementation reports. Under the MoU, both measures aim to foster the institutionalization of MDGs in the development planning system. Accordingly, the state government has established MDGs unit in the Directorate of Budget and Economic Planning, Ministry of Finance and Economic Planning. Under the arrangement, the Permanent Secretary, Budget and Planning is the MDG Focal Officer, while the Director, Budget and Planning is the MDGs Coordinator. The special unit coordinates and monitors all MDGs-related programmes, including support from federal government and development partners. Currently, the state has secured funding from OSSAP MDGs to the tune of ₦775,000,000 for up to 122 projects including health (health clinics, safe motherhood centres), energy (solar model centres), water (water supply centres) and sanitation (latrines).

There is currently no systematic framework for tracking the progress towards the MDGs. The MDGs-related projects are implemented by different line or sector ministries, departments and agencies. Hence, achieving synergy between MDGs project implementing agencies (that is, line or sector ministries) and the coordinating/monitoring Directorate remains a big challenge in effective tracking of the impact of expenditures on MDGs.

While there is periodic reporting of MDGs projects under the Conditional Grant Projects (MDG CGS-Projects) of the Office of the Senior Special Assistant to the President on MDGs (OSSAP MDGs), the reports are mere mandatory administrative accounts of project inputs and outputs, not outcomes and impact. Two reports have been prepared, one in February 2007 and the other in March 2008. Regarding Jigawa State's own-monitoring of MDGs, the MDGs Coordination and Monitoring Office (of Directorate of Budget and Economic Planning) relies on quarterly budget returns from the Ministries, Departments and Agencies. Ideally, the feedback reports contain information on revenue realised, expenditures till date and different levels of project execution. However, most of these budget reports are in arrears, as evidenced by the 2008 Budget, whereby actual expenditures in preceding year (2007) are not reported.

Starting with the 2008 fiscal year, the state adopted a codified budget classification system, the same as in Kano State. The system codifies expenditure items by sectors and MDAs. The new budget classification embeds an Integrated Financial Management Information system to enable tracking of expenditures from budget preparation to implementation. Within the system, there is a facility designed to help track MDGs related expenditures, both capital and recurrent. But this facility still does not link expenditures to outcomes and impact. The shortcoming is reflective of the methodological gap in tracking the impact of expenditures on MDGs outcomes and impact, even at the national level. Indications are that the Directorate of Budget and Economic Planning is initiating the process of preparing MDGs progress report, based on the existing template of the Nigeria MDGs annual progress reports. Without a comprehensive MDGs report, the state relies on the results from the National Bureau of Statistics (NBS)'s Core Welfare Indicator Questionnaire (CWIQ) survey designed to assess and monitor poverty and welfare. So far, the CWIQ has collected poverty and welfare data for two points in time, July 2002 and March 2006. Table 6 summarises MDG-related expenditures of Jigawa State government.

Table 8: Outlook of MDGs-related Expenditures in Jigawa State, 2005-2007

<b>Expenditure type/ratio</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Capital expenditure as % of total expenditure	74.0	70.0	-
Recurrent expenditure as % of total expenditure	26.0	30.0	-
Actual capital expenditure on health as % of total capital expenditure	0.05	2.0	-
Actual recurrent expenditure on health as % of total expenditure	4.46	-	1.19
Actual capital expenditure on education as % of total capital expenditure	3.29	-	6.96
Actual recurrent expenditure on education as % of total recurrent expenditure	29.69	-	9.88
Actual capital expenditure on agriculture + rural development + water resources as % of total capital expenditure	1.98	-	2.6
Actual recurrent expenditure on agriculture + rural development + water resources as % of total recurrent expenditure	-	3.39	1.62
Actual capital expenditure on women and social development as % of total capital expenditure	< 0.01	0.05	-
Actual women and social development recurrent expenditure in as % of total recurrent expenditure	-	-	0.04
Actual capital expenditure on environment as % of total capital expenditure	-	-	-
Actual recurrent expenditure on environment as % of total recurrent expenditure	-	-	0.04

**Source:** Budget and Fiscal Documents of Jigawa State

The frequency of empty cells in Table 8 reflects the poor state of budget and public expenditure data reporting in Jigawa State. Available data however, shows that capital expenditure accounted for a greater share of total expenditure in 2005 and 2006. Education took a considerable share of the total capital and recurrent spending.

## 5.4 KANO STATE

### *Social and Economic Profile*

Known as northern Nigeria's economic and industrial nerve centre, Kano State has a total population of about 9.4 million in 2006 and a land area of 20,760 sq km. The total land area consists of about 1.7 million hectares of arable land and 75,000 hectares of forest and grazing land. Most of the state lies within the Sahel Savannah vegetation zone. More than 75% of the population lives in rural areas with agriculture as the economic mainstay. The main agricultural commodities in the state include groundnut, cotton, guinea corn, maize cowpeas and vegetables. Besides, there are notable clusters of small-scale and micro enterprise activities covering merchandise trade, textile, services and agro-based.

The State has 44 local government areas and 44 District Heads, with the Emir of Kano as the Head of the traditional institution. Poverty in the state was estimated at about 50% in 2007 with HIV prevalence of 3.6%. Infant mortality and Under-5 mortality rates were estimated at about 101 per 1000 and 166 per 1000 respectively. Up to 90% of the State's public revenue comes from the Federation Account Allocation. Only 13% of women aged 15-24 years are literate and net primary school completion rate is 23%.

### *MDGs-oriented Policy and Institutions*

The policy framework for the achievement of the MDGs is the medium-term plan – the Kano State Economic Empowerment and Development Strategy (K-SEEDS) which covered 2005-2007. By the K-SEEDS, Kano State articulated the development priorities, policy strategies and programme thrusts which have potentially critical implications for the MDGs. It contains financial estimates covering the 2005-2007, based on a rolling plan derived from project costing across sectors. It was estimated that K-SEEDS would cost about one hundred and thirteen billion naira (N113 billion) over the three year period.

The institutional framework for the monitoring of MDGs is split between the Ministry of Planning and Budget and the Project Monitoring Directorate (also headed by a Commissioner who reports directly to the Governor). While the Ministry of Planning and Budget carries out coordination, harmonisation and consolidation of sector policies, budget estimates and periodic feedback on expenditure returns, the Project Monitoring Directorate carries out monitoring and evaluation of projects, including those relating to MDGs. There is however, a special unit within the Ministry of Planning and Budget that coordinates progress reports and donor assistance on MDGs. Under the existing structure, the Ministry of Planning and Budget cannot get first-hand information on budget implementation and project performance.

The monitoring of MDGs has not been deliberate and systematic. Like in many states in the country, Kano State does not have a formal structured MDGs progress report. Also, there is no definite framework for monitoring the progress towards the MDGs in the state. However, the preparation of



the 2006 MDGs progress report, which is the first ever, is currently underway, with support from United Nations Development Programme (UNDP). Part of the elements of the preparation is the formulation of the template for capturing the progress in the different Millennium Development Goals and constituent Indicators, towards the 2015 targets (see Annex for the templates). The preparation of the MDGs progress report is challenged by paucity of relevant statistical data at the state and local government levels and the shortage of capacity for MDGs data gathering and reporting. The monitoring framework given by the template reports project activities and impact indicators. It does not capture outputs (goods and services produced) and the inputs (for example, amount of resources devoted to producing the goods and services). The absence of functional links with MDGs related expenditures is a major shortcoming of the existing monitoring framework, upon which the 2006 MDGs report will be based. The framework is a replica of what has been used at the national level in the three successive national MDGs reports - 2004, 2005 & 2006. In spite of the circumstances, the 2006 MDGs report for the state is expected to be completed by September 2008.

The conclusion of K-SEEDS has witnessed the emergence of three separate draft policy documents in different circumstances. The documents are the 4-year Rolling Plan, K-SEEDS-2 and the Roadmap for Growth and Development. These documents are being consolidated into a single document to be called the 4-year Kano State Development Plan. The preparation of the Plan is carried out through a committee structure consisting of 9 sectoral committees, the technical committee (which consolidates sector committee reports) and the Economic Planning Committee which would ratify the technical committee's reports for onward submission to the State Executive Council. Table 9 summarises MDG-related expenditures of Kano State government.

Table 9: Outlook of MDGs-related Expenditures in Kano State, 2005-2007

<b>Expenditure type/ratio</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Capital expenditure as % of total expenditure	62.0	35.4	43.7
Recurrent expenditure as % of total expenditure	38.0	64.6	57.3
Actual capital expenditure on health as % of total capital expenditure	4.1	2.4	5.47
Actual recurrent expenditure on health as % of total expenditure	2.36	10.39	13.98
Actual capital expenditure on education as % of total capital expenditure	10.6	10.58	7.96
Actual recurrent expenditure on education as % of total recurrent expenditure	10.16	23.44	24.58
Actual capital expenditure on agriculture + rural development + water resources as % of total capital expenditure	31.46	34.0	28.13
Actual recurrent expenditure on agriculture + rural development + water resources as % of total recurrent expenditure	12.80	6.15	8.41
Actual capital expenditure on women and social development as % of total capital expenditure	2.96	0.01	0.09
Actual women and social development recurrent expenditure in as % of total recurrent expenditure	1.1	0.04	0.04
Actual capital expenditure on environment as % of total capital expenditure	25.29	3.32	0.09
Actual recurrent expenditure on environment as % of total recurrent expenditure	1.33	1.84	1.17

**Source:** Budget and Fiscal Documents of Kano State

Expenditure data reporting was relatively better in Kano State, as shown by the absence of missing data. On the average, recurrent expenditure constituted 53% of the total spending over the period 2005-2007. The bulk of the capital spending went to “education” and “agriculture, rural development and water resources.” Even though capital spending on health was about 5.5% in 2007, recurrent spending was as high as about 14%.

## **5.5 OSUN STATE**

### ***Social and Economic Profile***

Osun State has a total land area of 14,875 sq km with a population of about 3.4 million. There are 30 local government areas spread across 6 zones of the State. The economy is predominantly agricultural, with various farm and post-farm activities. The major agricultural commodities are maize, cassava, rice, cowpea, cocoa, oil palm, citrus and cashew. An estimated 6% of the State is covered by forests and there are 7 government forest reserves totalling 88,869 hectares.

Poverty rate (about 25%) is one of the lowest in the country. The prevalence of HIV is about 2.5%. The State has among the lowest infant mortality (64 per 1000) and under-5 mortality (99 per 1000) in the country. Net primary school attendance ratio is 99.4% and 90% of women between 15-24 years are literate. Less than 15% of total government revenue is obtained from internal tax, the rest comes from the Federation Account Allocation.

### ***MDGs-oriented Policy and Institutions***

Since 2004, Osun State has been implementing economic policies and programmes driven by the Osun State Economic Empowerment and Development Strategy (Osun SEEDS, 2004-2007) aligned to the National Economic Empowerment and Development Strategy (NEEDS). Also, at the local government level, programmes and projects have taken bearing from the Local Economic Empowerment and Development Strategy (LEEDS), representing the third concentric circle of the reform agenda across the country. In order to deepen the reform process to the grassroots communities, the state government in 2007 initiated the process for the formulation of Community Economic Empowerment and Development Strategy (CEEDS), by the respective communities, using the platforms of community development associations and township unions. The Osun SEEDS prioritizes government social and economic programmes and associated public spending for accelerated progress towards the MDGs by 2015. While acknowledging the reform milestones recorded with the SEEDS-I plan and the alignment of successive annual budgets<sup>8</sup> (2004-2007) to the MDGs-related priorities, the state government in 2007 started the process of reviewing the SEEDS and LEEDS documents as the necessary first step to the formulation of the SEEDS-II and LEEDS-II documents, for the period 2008-2011.

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<sup>8</sup> In the 2007 budget document, the State Governor states explicitly that “since 2004 our annual budgets have always been compliant with the SEEDS, 2004-2007.....all our annual budgets have been packaged to ensure the achievements of the MDGs by 2015.”

As a result, there is now a zero draft of the OSUN SEEDS-II document outlining the development priorities, strategies and targets for the period 2008-2011. The OSUN SEEDS II embeds the multi-year budgeting system through the preparation of MTEF and MTSS. Both MTEF and MTSS are separately prepared and annexed to the SEEDS document. According to the zero draft of the SEEDS-II, the Year 2008 budget by virtue of being the first year of SEEDS-II, has provided the basis for projecting the MTEF estimates to 2009 and then to 2010.

The economic planning role is split between the External Finance Department and the Central Economic Planning Office (CEPO), both under the Ministry of Finance and Economic Development. While the External Finance Department has been responsible for SEEDS formulation and coordination, the Central Economic Planning Office has been assigned the function of coordinating and monitoring MDGs matters. The Central Economic Planning Office has three sub-departments: Department of Macro-statistics, Department of Macroeconomic Planning and Department of Project Monitoring. However, some level of coordination is achieved by both External Finance Department (SEEDS secretariat) and Department of Project Monitoring (MDGs secretariat). As the MDGs secretariat, the Central Economic Planning Office is coordinating unit for the MDGs Committee consisting of relevant MDAs. In another vein, CEPO is a member of the SEEDS Committee which comprises more than 30 members including NGOs, private sector associations and the respective representatives of traditional rulers, labour, market associations, students, professionals and academia.

Until the formation of the special MDGs coordinating office and the constitution of the MDGs Committee, the monitoring of MDGs was simply embedded in the generic project implementation reporting system. Since late 2006, when the MDGs office was created, there has been remarkable progress in the approach to monitoring and documentation of MDGs projects and programmes, as well as MDGs status reporting. Already, the state has applied and awaiting approval to benefit from the OSSAP MDGs (Presidency) Conditional Grants Projects. The application covers health (maternal health, malaria control), water and youth empowerment. Several shortcomings exist in the MDGs monitoring system. One, it is not systematic in terms of capturing and linking up all stages of the policy continuum, from inputs to outputs to outcomes to impact. Two, existing monitoring arrangements do not rely on standard methodology, hence it becomes difficult to compare across years and across sectors. Three, the use of line-item disjointed mode of numbering in place of the modern system of budget classification and chart of accounts diminishes the amenability of the budget to expenditure tracking for both MDGs and related sectors/programmes. Table 10 summarises MDG-related expenditures of Osun State government.

Table 10: Outlook of MDGs-related Expenditures in Osun State, 2005-2007

<b>Expenditure type/ratio</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Capital expenditure as % of total expenditure	41.6	44.1	34.1
Recurrent expenditure as % of total expenditure	58.4	55.9	65.9
Actual capital expenditure on health as % of total capital expenditure	6.08	4.7	0.41
Actual recurrent expenditure on health as % of total expenditure	-	-	-
Actual capital expenditure on education as % of total capital expenditure	10.08	12.24	29.8
Actual recurrent expenditure on education as % of total recurrent expenditure	-	-	-
Actual capital expenditure on agriculture + rural development + water resources as % of total capital expenditure	5.33	13.79	0.19
Actual recurrent expenditure on agriculture + rural development + water resources as % of total recurrent expenditure	-	-	-
Actual capital expenditure on women and social development as % of total capital expenditure	0.001	0.01	-
Actual women and social development recurrent expenditure in as % of total recurrent expenditure	-		
Actual capital expenditure on environment as % of total capital expenditure	0.01	0.007	0.01
Actual recurrent expenditure on environment as % of total recurrent expenditure	-		-

Over the period 2005-2007, Osun State recorded greater recurrent than capital spending. Capital spending on health hovered between 4-6%, while that of agriculture, rural development and water resources was very variable across the three years (0.19% in 2007 and 13.79% in 2006). On the other hand, education spending was the largest single capital spending over the three year period, reaching up to 29% in 2007.

## **5.6 YOBE STATE**

### ***Social and Economic Profile***

Located in northeast of the country, Yobe State covers a total land area of 47,153 sq km, with a total population of 2.3 million in 2006. Bordered by Republic of Niger to the North, the State hosts the remarkable River Yobe which flows through the area and empties into the Lake Chad – an important source of livelihood to a large number of settlements. With a total of 13 local government areas, the State is characterised by semi-arid to arid conditions, dominated by savannah-type vegetation (sparsely populated shorter trees). It has a rich livestock economy which remains an important livelihood and employment subsector. The main commodities are sorghum, cotton, cowpeas, groundnut, millet, rice, gum Arabic, shea butter, vegetables and fisheries.

Poverty rate (estimated at about 78% in 2007) is among Nigeria's highest. The prevalence of HIV is about 3.8% in 2005. Infant mortality and under-5 mortality rates are estimated at about 96 per 1000 and 157 per 1000 respectively. Net primary school attendance rate was estimated at about 8.7% in 2007, while 5% of women aged 15-24 years are literate. Internally generated revenue constitutes a meagre 2.5% of total public revenue.

### **MDGs-oriented Policy and Institutions**

The overarching policy context for the implementation of programmes and projects with bearing on the MDGs is the Yobe State Economic Reform Agenda (YOSERA) – the equivalent of State Economic Empowerment and Development Strategy (SEEDS), whose term lapsed in 2007. Though the plan does not designate an explicit framework for achieving the MDGs, it reflects development priorities, policy targets and strategies and programmes that impact on many MDGs sectors including education, health, agriculture, environment, housing and women. Currently, the state is preparing a successor economic plan to YOSERA-1, called the YOSERA-2.

The deliberate monitoring of MDGs is just commencing, with the creation of a Unit to handle MDGs matters. There is now a Committee on MDGs. It is chaired by the Secretary to the State Government, with the Special Adviser to the Governor on Budget Matters as one of the members. The Committee has a secretariat in the Office of the SSG, with a Secretary who functions as administrative head. This Committee has largely been driven by the programmes under the Office of the SSAP on MDGs, of which Yobe State is one of the beneficiaries. The committee is being set up against a backdrop of lack of systematic arrangement for the monitoring of MDGs in the state. Monitoring is generic, not really designed for the MDGs, as it relies merely on budget returns on money spent and projects executed, which in any case are not timely and adequately rendered by the MDAs. In general, acute capacity shortages and bureaucratic inefficiencies pose serious challenge to effective monitoring and tracking of public spending including MDGs expenditures. Table 11 summarises MDG-related expenditures of Yobe State government.

Table 11: Outlook of MDGs-related Expenditures in Yobe State, 2005-2007

<b>Expenditure type/ratio</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Capital expenditure as % of total expenditure	57.8	50.9	60.0
Recurrent expenditure as % of total expenditure	42.2	49.1	40.0
Actual capital expenditure on health as % of total capital expenditure	4.72	5.59	-
Actual recurrent expenditure on health as % of total expenditure	-	-	-
Actual capital expenditure on education as % of total capital expenditure	16.86	22.57	40.0
Actual recurrent expenditure on education as % of total recurrent expenditure	-	-	-
Actual capital expenditure on agriculture + rural development + water resources as % of total capital expenditure	12.55	16.25	15.09
Actual recurrent expenditure on agriculture + rural development + water resources as % of total recurrent expenditure	-	-	-
Actual capital expenditure on women and social development as % of total capital expenditure	-	3.27	-
Actual women and social development recurrent expenditure in as % of total recurrent expenditure	-	-	-
Actual capital expenditure on environment as % of total capital expenditure	-	-	-
Actual recurrent expenditure on environment as % of total recurrent expenditure	-	-	-

**Source:** Yobe State Budget Documents, 2006-2008

Over the period 2005-2007, the larger share of spending by Yobe State went to capital goods, relative to recurrent items. Capital spending on health hovered between 4-5% of total capital spending, while capital spending on education ranged from 16-40%. Capital spending on agriculture, rural development and water resources varied between 12-15% of total capital spending. The high number of empty cells speaks volume about the lack of expenditure data in the state. It indicates underlying shortage of expenditure tracking, monitoring and reporting capacity.

## **6.0 FISCAL AND BUDGET MANAGEMENT CAPACITY AT THE STATE LEVEL**

Generally, the institutional and structural weaknesses of fiscal and budget systems across the states and local governments in Nigeria include (1) poor budget and public expenditure management (2) heavy reliance on revenue transfers from the federal government, that is, very low internally generated revenue and (3) lack of optimal balance of between recurrent and capital spending.

Weak budgeting capacity and the lack of fiscal transparency at the state and local government levels impede the quality of public expenditures (Okogu and Osafo-Kwaako, 2008). These weaknesses limit the capacity of state governments to perform their statutory policy responsibilities and expenditure functions including the MDGs in an effective and sustainable manner. Given the situation, therefore, fiscal federalism in Nigeria has not been able to contribute optimally to social and economic development. There is a body of thought which blames the decline in real economic growth and development in Nigeria to the abandonment of regional arrangement in 1966 (Ekpo and Englama, 2008). It is argued that the creation of more states and local governments has not translated into substantial improvement in the delivery of public goods and services or the promotion of real economic growth (Soyode, 2004).

### **6.1 Weak Budget and Public Expenditure Management**

Beginning from 2005, the National Planning Commission started a process of assessment and benchmarking of state governments in various areas of economic governance, particularly with respect to the performance in the implementation of the MDGs-oriented States' Economic Empowerment and Development Strategy (SEEDS). One of the key parameters was budget and fiscal management. Under budget and fiscal management, the assessment was designed to rate the states based on the questions: Is the budget a reliable guide to spending? How is the budget prepared, and does it reflect the priorities in SEEDS? How is expenditure tracked? How is debt managed? Does the state produce accounts and have them audited? Does it monitor its ministries, departments and agencies (MDAs)?

The assessments reveal considerable weaknesses in fiscal and budget management across the states. However, most States demonstrated increased capital allocations to SEEDS priorities in the 2006 budget. The performance of States in terms of percentage of capital allocations to SEEDS (or MDGs) sectors in their 2006 budgets is given in Table 12 as follows.

Table 12: Performance of States in terms of Capital Allocations to SEEDS/MDGs priorities

Percentage of Capital Allocations to SEEDS priorities	No. of States	Proportion (%)
At least 75%	6	18
At least 50%	16	47
Below 50%	12	35
TOTAL	34	100

**Source:** SEEDS Benchmarking Results 2006, National Planning Commission

However, due to poor budget performance, this was not necessarily translated into actual spending. It was also found that a number of states were several years in arrears on producing accounts for audit. In most States, budgets are not a reliable guide to actual spending. Where accounts are available, they show huge variances between actual and budgeted expenditure, both at ministry level and in aggregate. Disparities between budgeted and expenditure amounts have greatly undermined the role of budget as a tool for public financial planning (Eboh, et al., 2006). Few states made convincing projections for internally-generated revenue in their 2005 budgets and less than half made convincing projections of federal allocations.

Very few states had evidence of regular monitoring of the finances of MDAs. As at 2006, no state had begun the separate identification and tracking of poverty reducing expenditures in their budgets either through a special virtual fund code or existing budgetary classification system or prior identification of poverty reducing expenditure items. Rather, the conventional practice is that budget classifications categorize various expenditure items into heads and sub-heads without efforts to identify and track poverty reducing expenditures under each head and sub-heads (NPC, 2007b). Presently, some states like Lagos, Kano and Cross River have modernized their budget classification systems to ensure tracking and monitoring (Eboh, 2008).

## 6.2 States are too Dependent on Transfers from the Centre

The heavy reliance on transfers from the federal government underscores the high fiscal sustainability risks faced by state and local governments. Average internally generated revenue share of total state governments' expenditure during 2003-2007 was 11.09%. The fact that many state and local governments cannot meet up to half of recurrent spending from internally generated revenue raises serious questions about the fiscal relations across the tiers of government and the entire principle of fiscal federalism. The situation is worse if the internally generated revenues are compared to the total public spending by the state governments, as shown in Fig. 3.

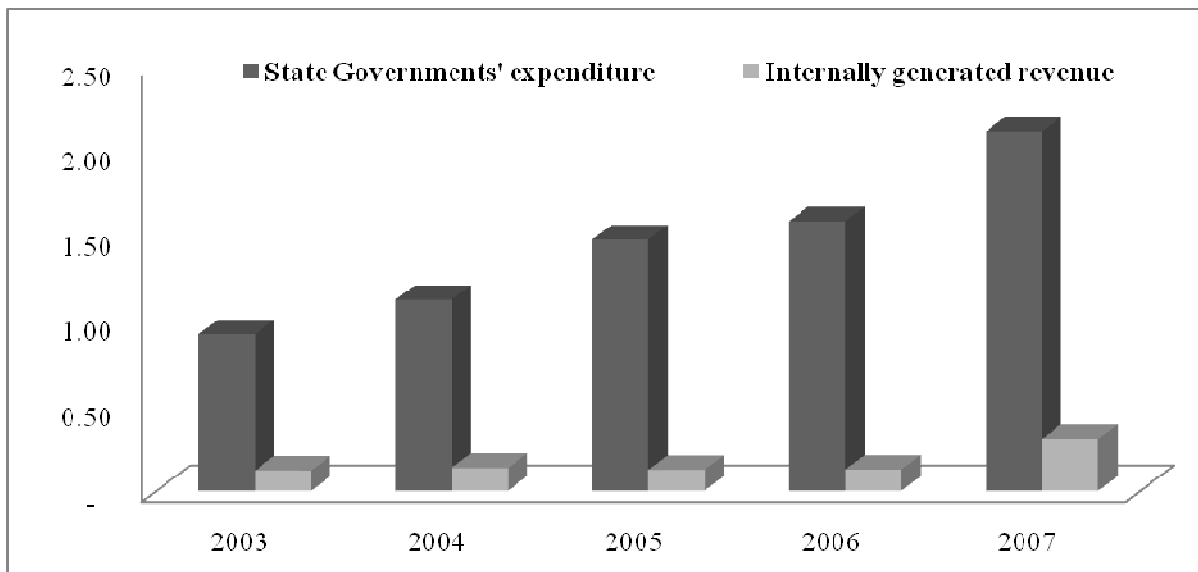


Figure 3: Internally generated revenue vis-a-vis aggregate state governments' expenditure (in ₦'billion)

The heavy dependence on transfers from the federation account raises risks about state governments' accountability to local populations, fiscal autonomy, responsiveness to local goods and services. The risks are underscored by paucity of incentives or pressures for state governments to manage public resources efficiently and effectively (Alade, 1999; Anyanwu, 1999).

The fiscal viability risk at the local government level is even more acute. Average internally generated revenue share of total local governments' expenditure during 2003-2007 was 4.12%. The fiscal vulnerability of the local governments is starkly revealed in Fig 4 as follows.

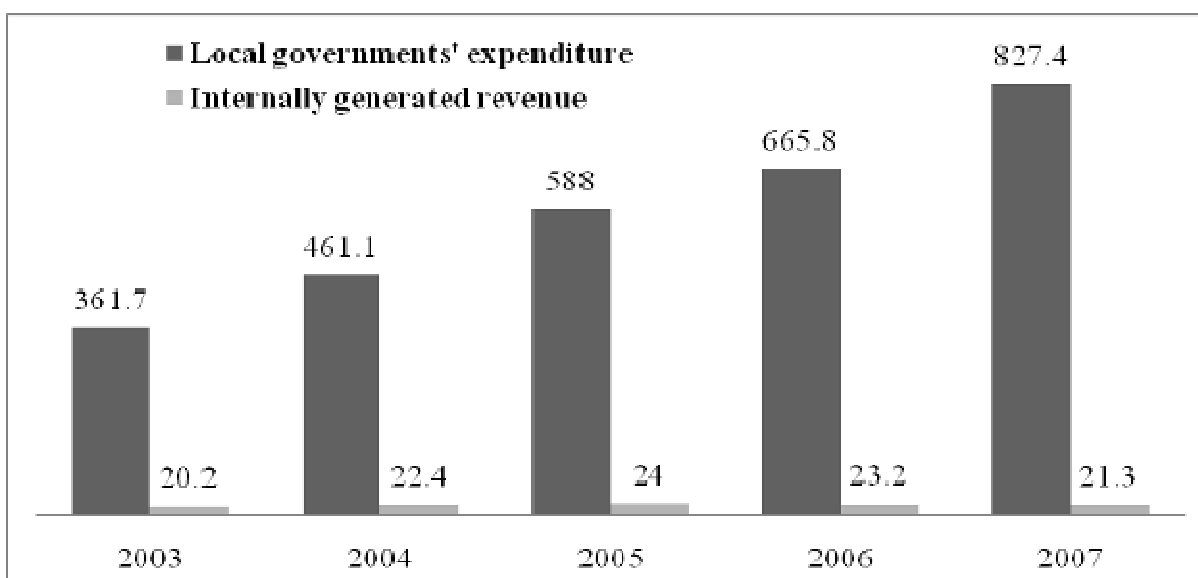


Figure 4: Internally generated revenue vis-a-vis aggregate local governments' expenditure (in ₦'billion)



Fig. 4 shows that there are serious questions about local governments' ability to carry out their expenditure functions on a sustainable basis, particularly given the volatile nature of transfers from the federal government. Almost exclusive reliance on federal transfers creates conditions for lack of accountability as local governments may shift blame and responsibility for service delivery to higher tiers of government that control the bulk of government revenues. According to World Bank (2007), high degrees of disparity between spending levels and own tax collection creates significant incentive distortions for the affected governments. The situation tends to undermine government incentives for expanding the local tax base and reduce the demand by the local taxpayers for government accountability and budget transparency.

### 6.3 State Governments' Recurrent Spending Dominates Total Spending

Across the states, the balance of budget spending is tilted towards recurrent spending, as shown in Fig. 5. High share of recurrent spending in total budget is associated with the huge administrative costs brought about by successive splitting of states.

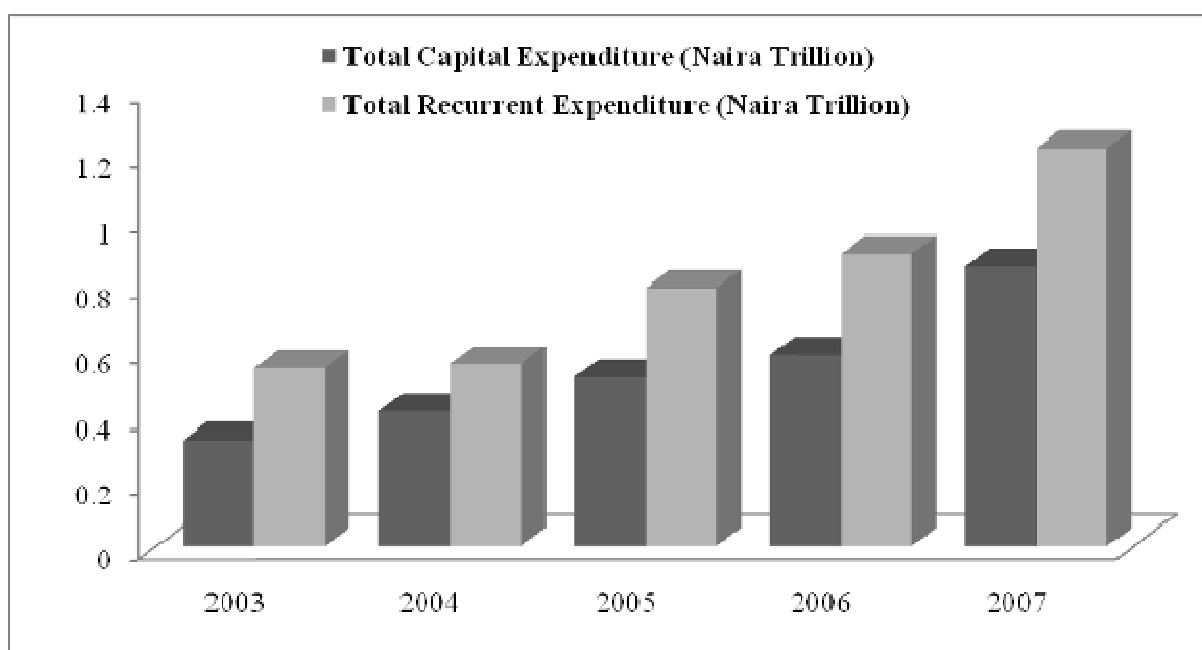


Figure 5: Aggregate recurrent and capital expenditures of state governments

During 2003-2007, the annual average recurrent expenditure of state governments was 59.80%, leaving only 40.20% for capital expenditure. Evidence shows that education constituted the largest single share of total recurrent expenditures of state governments from 2001-2005, followed by health (Eboh et al., 2006). Even though the recurrent spending is also vital for the MDGs, it is necessary to ensure appropriate balance of recurrent and capital spending as the bases for achieving the 2015 in a sustainable manner.

The local governments have relatively less resources for capital spending. On the average, recurrent expenditure was 68% of total local governments expenditure during 2003-2007. Put in

another way, only one-third of total local governments resources was devoted to capital expenditures. This finding rhymes with evidence from Eboh, et al., 2006. The annual trend in the dominance of recurrent spending by local governments is shown in Fig. 6.

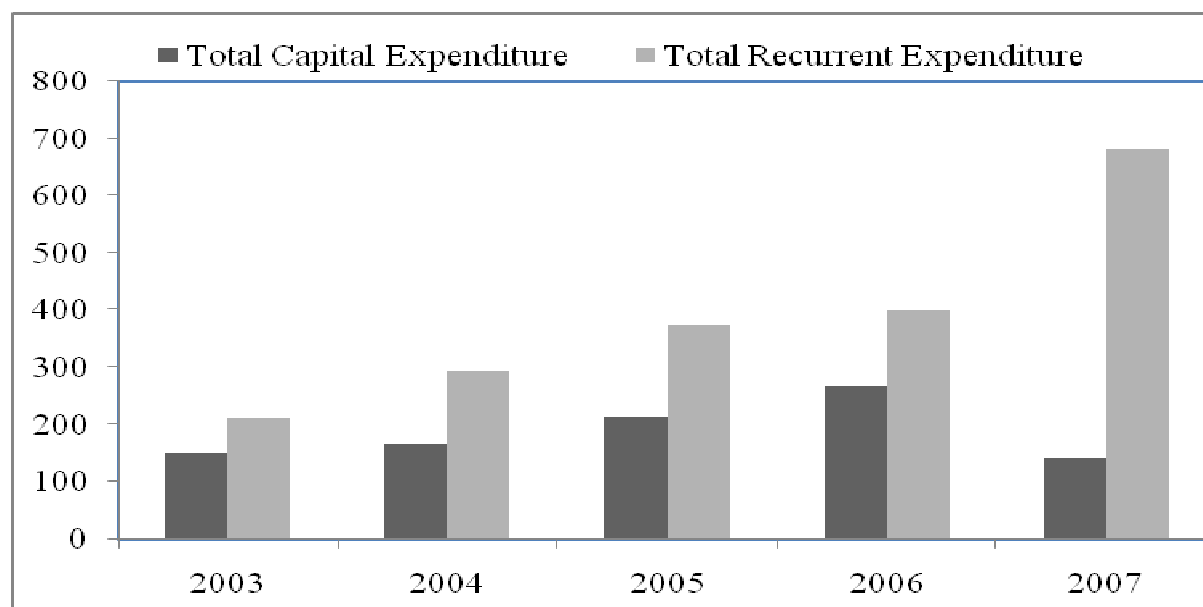


Figure 6: Aggregate recurrent and capital expenditures of local governments (₦ billion)

Given the critical role of local governments in the planning, management and provision of MDGs-related public services, their fragile fiscal situation poses great risks to the economic capacity of local governments to perform their assigned roles and responsibilities, as also emphasized by Eboh et al, 2006. It directly implies that little portion of local government budgets are available for investing in primary education, primary health, gender, water and sanitation.

## 7.0 EXPLAINING SUB-NATIONAL VARIATIONS IN MDGs STATUS

### 7.1 Differences across Geopolitical Zones

Although the currently applicable geopolitical structure – North-Central, North-East, North-West, South-East, South-South and South-West zones – is neither created nor recognised in the Nigerian Constitution, it provides a convenient practical framework for political and economic organisation of the country. In fact, the six-fold geopolitical structure coheres with convenient grouping of states with common cultural, historical and political relationships and with broadly similar socio-economic conditions of development. In effect, though the six geopolitical zones are not political jurisdictions *per se*, they represent the first-tier sub-national level upon which MDGs status of the country could be disaggregated. Moreover, Nigeria's official sub-national data and statistics are usually organised along the six-zone structure<sup>9</sup>. Within this context, the MDGs performance of the six geopolitical zones is presented in Table 12, in order to obtain a comparative outlook.

<sup>9</sup> For example, the Nigerian Living Standard Survey (NLSS), Core Welfare Indicator Questionnaire (CWIQ) survey and Multiple Indicator Cluster Survey (MICS) conducted by the National Bureau of Statistics.

Table 13: MDGs status across Nigeria's six geopolitical regions<sup>10</sup>

MDGs indicator	Geopolitical zone					
	North West	North East	North-Central	South West	South South	South East
Food energy poverty (%)	62.9	67.3	62.3	42.0	51.1	34.2
One dollar per day poverty (%)	61.2	64.8	58.6	40.2	47.6	31.2
Relative poverty (%)	71.2	72.2	67.0	42.0	35.1	26.7
Self assessed poor (%)	71.9	81.8	80.0	71.5	74.8	77.6
Inequality (Gini index - %)	38.9	39.8	46.1	40.6	39.4	38.7
Percentage of women aged 15-24 years that are literate, 2007	21.2	8.7	55.6	87.4	81.0	87.5
Gender parity index for primary school – ratio of girls to boys – net attendance ratio, 2007	0.82	0.84	0.98	0.99	0.99	0.99
Gender parity index for secondary school – ratio of girls to boys – net attendance ratio, 2007	0.68	0.71	0.90	0.98	1.03	1.02
Net primary school completion rate	17.6	6.4	41.0	59.7	62.1	49.8
Percentage who reach grade 5 of those who enter 1 <sup>st</sup> grade, 2007	93.8	89.0	94.4	98.0	96.9	96.7
Secondary school net attendance ratio - % of children of secondary school age attending secondary or higher school, 2007.	30.1	8.1	58.7	78.3	72.3	69.8
Primary school net attendance ratio for girls	43.5	12.5	82.8	97.0	95.8	95.7
Secondary school net attendance ratio for girls	23.8	6.6	55.6	77.4	73.4	70.4
% of women delivered in health facility	9.1	16.4	41.9	73.0	51.3	74.9
Vaccination coverage for 1-year old	13.6	21.1	19.8	50.6	38.7	54.6
% of children aged 12-23 months currently vaccinated against childhood diseases, 2007	3.2	1.0	28.9	36.3	20.8	20.4
Infant mortality rate (per 1000 live births)	101	96	74	64	71	88
Under five mortality rate (per 1000 live births)	166	157	117	99	111	142
Maternal mortality rate (per 100,000 live births)						
HIV prevalence rate	3.5	4.3	6.1	2.6	5.3	4.7
% of household using improved sources of drinking water	42.5	27.3	42.2	72.7	54.1	54.1
% of household using sanitary means of excreta disposal	34.1	34.4	29.6	55.0	54.3	55.5

**Source:** Derived from NBS MICS, CWIQ, Poverty Profile of Nigeria, MDGs Reports.

Table 13 shows considerable variations in MDGs status across the six geopolitical zones. A few examples are instructive. Poverty incidence is as low as 31% in the South-East region, but as high as 72% in the North-East region. The literacy rate of females between 15-24 years old is as low as 8.7% in the North-East region, but as high as 87% in the South-West. Vaccination coverage for 12-

<sup>10</sup> Sources: Nigeria Poverty Assessment, 2007. National Bureau of Statistics and the World Bank. December 2007; Core Welfare Indicator (CWIQ) Survey, 2006. National Bureau of Statistics and Epidemiological Fact Sheet on HIV and AIDS: 2008 Update. WHO, UNIAIDS, UNICEF.

month old is as low as 13% in North-West region, but as high as 54% in the South-East region. Infant mortality rate is as high as 101 in North-West region, but as low as 64 in the South-West region. Secondary school attendance ratio is as high as 78% in the South-West region, but as low as 8% in North-East region. Primary school net attendance ratio for girls is as low as 12% in the North-East region, but as high as 95% in the South-South region. Incidence of child birth in health facility is as low as 9% in the North-West region, compared to 75% in South-East region.

The sub-national variability calls into question the aggregate national picture of MDGs status across Nigeria. Such single national picture masks sharp sub-national differences in the progress towards MDGs 2015 targets. Besides obvious statistical misrepresentation, the aggregate measures of progress towards MDGs implicitly understate the need for alignment of policy and programmes to local circumstances. Given the disparities, the onus falls on sub-national jurisdictions, particularly state and local governments with lagging MDGs conditions, to formulate and implement programmes which squarely address their peculiar conditions. For example, some states in the northern part of the country report relatively greater public spending<sup>11</sup> on education, than their counterparts in the southern part. Disparities in MDGs status across the various geopolitical zones of Nigeria is linked to underlying social, economic and historical-cultural factors. For example, early marriage of girls in some parts of the northern Nigeria hampers girl-child education, which in turn reverberates in low human development, such as poor infant and maternal health.

## **7.2 Differences across the States**

Like the geopolitical zones, the States show variable MDGs status. Appendix III outlines the MDGs status of the thirty six states of the country and the Federal Capital Territory. A few disparities in MDGs performance across the states are highlighted as follows:

- Poverty is as high as 91% in Jigawa State but as low as 31% in Ogun State;
- Poverty severity is as high as 35% in Kogi State but as low as 7.1% in Rivers State;
- HIV prevalence rate is as high as 11% in Benue State, but as low as 2% in Abia State;
- Infant mortality rate is as high as 101 per 1000 in Kano but as low as 64 per 1000 in Osun State;
- Incidence of the use of improved sources of water is as high as 80% in Oyo State but as low as 19% in Adamawa;
- Primary school net attendance ratio (girls) is as high as 98% in Abia State, but as low as 7% in Bauchi State; and
- Secondary school net attendance ratio (girls) is as high as 83% in Ekiti State but as low as 7% in Katsina State.

The variability of MDGs conditions at the State level reinforces the imperative of State-specific policies and programmes designed to bolster the march towards the 2015 targets. It also raises the need for innovative forms of federal government assistance to the lagging States. Without compensatory programmatic actions in lagging States, Nigeria's quest to achieve the MDGs 2015

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<sup>11</sup> In some cases, public spending on education surpasses the 25% benchmark specified by UNESCO

targets could be undermined by asymmetric conditions across the country. The constitutional autonomy of the States offers great opportunity to leverage state-specific interventions in order to eliminate the distortive gaps in MDGs conditions across the country. However, the autonomy can only be productively exercised if there is sufficient policy and fiscal capacity at the state level.

### **7.3 Relationship between MDGs Indicators**

The differential MDGs status across states can be further understood from the perspective of the correlation between different indicators. The correlation between respective MDGs indicators across states reveals some underlying associations that are instructive for the achievement of the 2015 targets.

Results of the analysis show that infant mortality rate is highly and significantly negatively correlated with primary school net attendance ratio (79%), secondary school net attendance ratio (83%) and net primary school completion rate (82%). In the same vein, under-five mortality rate is highly and significantly correlated with primary school net attendance ratio (79%), secondary school net attendance ratio (83%) and net primary school completion rate (82%). This shows that higher rates of infant mortality and under-5 mortality are associated with lower rates of primary and/or secondary education.

Poverty incidence is positively correlated (43%) with infant mortality, indicating that higher infant mortality is associated with higher poverty rates. Poverty incidence is strongly negatively correlated at 62% with percent of women aged 15-24 years old that are literate. This indicates that higher rates of poverty are associated with lower rates of women literacy, a typical correspondence between poverty and literacy. On the other hand, poverty incidence is negatively correlated with primary school net attendance ratio (58%), secondary school net attendance ratio (56%) and net primary school completion rate (49%). This shows that higher levels of poverty are associated with lower levels of education.

## **8.0 CONCLUSIONS AND POLICY IMPLICATIONS**

The return to constitutional democratic rule in May 1999 has particularly reinforced fiscal federalism, compared to the apparently unitary (centralist) tendencies of prolonged military rule, since the 1970s. Nigeria's sub-national jurisdictions (state and local governments) are crucial to achieving the MDGs, because they together constitute the largest single portion of the country's fiscal and policy spaces for realising the 2015 targets. In fact, since state and local governments are, by statutes, mainly responsible for the financing of basic public services such as primary education and health, fiscal decentralisation has created the potential for increased MDGs-related spending. Analysing the extent to which those potentials have been actualised forms the object of this study.

The findings show that in theory, constitutional autonomy gives state governments ample independent powers for public spending, policymaking including the MDGs. But, in practice, they lack essential commensurate policy capabilities. The ability of state governments to effectively exercise constitutionally guaranteed autonomy in the process of formulation, implementation and monitoring of policies including the MDGs is undermined by weak technical and institutional capacities. Consequently, they often depend on the policy and fiscal reform initiatives of the federal government, as evidenced by the national policy reform landscape since 2004. Over the years, there has been low incidence of own-initiated or autonomous policy reforms by state governments, for example, in budget process, public expenditure, financial accountability and the MDGs. The implicit dependency<sup>12</sup> on federal government for policy leadership shows the dilemma faced by the states.

Evidence also links the shortage of capacities at the state level with the fact that many states were created from existing ones without corresponding efforts in capacity building to improve human resources and public service institutions. Older states often display greater policy and institutional capacities, relative to younger states. Moreover, the federal government ministries, departments and agencies (MDAs) seem to enjoy generally higher concentration of more experienced public officials, than state governments. Thus, the public service bureaucracy in many states is weaker than that of the federal government. The periodic splitting of states has disrupted capacity uptake in pre-existing states while foisting less qualified and inexperienced government bureaucracies in younger states.

The study reveals considerable variability of MDGs performance across the states and regions of the country. The variations are associated with regional (spatial) differences underpinned by diversity of social, economic, cultural and institutional conditions. The diversity reflects in cross-state differences in opportunities for internal (tax) revenues coupled with differences in expenditure policies. Hence, an aggregate national picture of Nigeria's MDGs status is rather over-simplistic and misrepresentative, because it masks regional and local differences and peculiarities. The variable status on MDGs indicators shows that states have varying challenges and opportunities, a situation which provides good basis for mutual learning and sharing of experiences. It also reveals the imperative of well-articulated federal equalisation programmes to compensate for genuine financial and technical incapacities at the state level.

The variability in performance underscores the necessity for deeper analysis of conditions shaping MDGs performance at the sub-national level. Policy overlap between the federal and sub-national governments raises the stakes for policy coordination and programme synergy across the across tiers of government, to eliminate duplication and wastage and maximize impact. Inter-governmental

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<sup>12</sup> In response to federal government's prompting, all state governments now have the State Economic Empowerment and Development Strategy (SEEDS), while local governments have the Local Economic Empowerment and Development Strategy (LEEDS). Also, many state governments have adopted the Fiscal Responsibility, Child Rights & Due Process Laws. All state governments now have designated departments for MDGs coordination and monitoring as well as for anti-HIV/AIDS programmes.

coordination - both vertically, that is between federal, state and local governments and horizontally, that is, among states themselves – is crucial for accelerated march to the MDGs target by 2015.

The analysis shows that the ability of state and local governments to significantly bolster the achievement of MDGs in Nigeria hinges upon the quality of economic governance, effectiveness of public spending, sound institutional capabilities for MDGs monitoring and synergy or coordination with the federal and local governments. Capacity constraints reduce MDGs spending efficiency across the states. Consequently, state governments would need to upgrade extant capacities for independent policy formulation, monitoring and evaluation within their jurisdictions.

Without corresponding capacity improvements for budget and fiscal management and the design, implementation and monitoring of MDGs policies, the autonomy of state and local governments will remain mere academic. It is therefore crucial that state governments develop and implement capacity upgrading strategies that will translate their constitutional autonomy into real impacts on economic development and MDGs in their respective jurisdictions. This is the optimal strategy by which state governments, and even local governments, will significantly bolster the national achievement of the MDGs.

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**Appendix I: Nigeria's Progress towards the MDGs from 1990-2005**

<b>GOAL</b>	<b>1990</b>	<b>1996</b>	<b>2004</b>	<b>2005</b>	<b>Target 2015</b>	<b>Progress towards Target</b>
<b>1. Eradicate Extreme Poverty and Hunger</b>						
Percentage of population living in relative poverty	43 <sup>1992</sup>	66	54	54 <sup>2004</sup>	21	Slow
Percentage of population living in extreme poverty (consuming 2,900) calories or lower daily)	-	-	35	35 <sup>2004</sup>	-	Insufficient data
Percentage of underweight children (under five)	36	31	30	30 <sup>2004</sup>	18	Slow
<b>2. Achieve Universal Education</b>						
Net enrolment ratio in primary education	68	81.1	81.1	84.26	100	Good
Proportion of pupils starting Grade One who reach Grade Five	67	71	74	74	100	Good
Grade six completion rate	58	64	69.2	67.5	100	Worsened in 2005
Literacy rate of 15-24 years old	70.7 <sup>1991</sup>	-	76.2	80.2	100	Good
<b>3. Promote Gender Equality and Empower Women</b>						
Ratio of girls to boys in primary education (girls per 100 boys)	82	-	79	81	100	Good
Ratio of girls to boys in secondary education (girls per 100 boys)	106		79	81	100	Good
Ratio of girls to boys in tertiary education (girls per 100 boys)	46 <sup>1991</sup>		72 <sup>2003</sup>	72 <sup>2003</sup>	100	Good
Share of women in wage employment in the non-agriculture sector (%)	66 <sup>1991</sup>		79 <sup>2003</sup>	79 <sup>2003</sup>		Good/Insufficient data
Proportion of seats held by women in national parliament (%)	1.0 <sup>1991</sup>		5.76 <sup>2003</sup>	5.76 <sup>2003</sup>	30%	Slow
<b>4. Reduce Child Mortality</b>						
Infant mortality rate (per 1000 live births)	91		100 <sup>2003</sup>	110	30.3	Worsening
Under-five mortality rate (per 1000 live births)	191		201 <sup>2003</sup>	197 <sup>2004</sup>	63.7	Marginal improvement
Percentage of one-year – olds fully immunized against measles	46		31.4 <sup>2003</sup>	50 <sup>2004</sup> Male: 48.38 Female: 51.62	100	Slow
<b>5. Improve Maternal Health</b>						
Maternal mortality rate (per 100,000 live births)	-		704 <sup>1999</sup>	800 <sup>2004</sup>	>75	Worsening/ Insufficient data
Proportion of births attended to by skilled health personnel	45.0		36.3 <sup>2003</sup>	44.0	>60	Worsening/Weak database

GOAL	1990	1996	2004	2005	Target 2015	Progress towards Target
<b>6. Combat HIV/AIDS, Malaria and Other Diseases</b>						
HIV prevalence among pregnant women aged 15-24		5.7 1999	5.2 <sup>2003</sup>	4.4 <sup>2005</sup>		Good
Percentage of young people aged 15-24 reporting the use of condom during sexual intercourse with a non-regular sexual partner			Female 24.0 <sup>2003</sup> Male 46.3 <sup>2003</sup>	Female 39.5 Male 49.7	100	Slow/Insufficient data
Number of children orphaned by AIDS			1.8 million	1.97 million		Insufficient data
Prevalence and death rates associated with tuberculosis				7.07 <sup>2004</sup> 1.50 2004		Insufficient data
Prevalence rate HIV among TB patients (%)	2.2		19.1 <sup>2000</sup>	27		Worsening
TB detection rate			14 <sup>2000</sup>	27	70	Slow
TB treatment success rate			79 <sup>2000</sup>	80	85	Good
<b>7. Ensure Environmental Sustainability</b>						
Proportion of land area covered by forests	10.0	14.6	13.0	12.6	20	Worsened in 2005
Proportion of gas flared	68.0	53.8	43.0	40.0	0	Good
Proportion of total population with access to safe drinking water (%)	54.0		57	60	80	Slow/weak database
Proportion of people with access to secure tenure (%)	-	-	31.0		100	Insufficient data
Carbon dioxide emissions (per capita)		0.3 2000	0.2	0.1		Insufficient data
Proportion of total population with access to basic sanitation (%)	39.0		38.0		100	Worsened/ insufficient data
Residential housing construction index (ACI) (Proxy)		45.8 1999	50.4 <sup>2003</sup>			Insufficient data
<b>8. Develop a Global Partnership for Development</b>						
Per capita official development assistance to Nigeria (in US\$)	3.0	2.0	2.3	4.0		Slow
Debt services as a percentage of exports of goods and services	22.3	8.9	7.4	3.4		Good
Private sector Investment (US\$ million)		50 1999		6080		Slow
Tele-density (per 1000 people)	0.45			15.72		Insufficient data
Personal computers (per 1000 people)	7		30	30 <sup>2004</sup>		Insufficient data
Internet access (%)	-	0.1 2003		1.9		Insufficient data

**Source:** Nigeria 2006 MDGs Report published by National Planning Commission.

**Appendix II: Some indicators of intergovernmental fiscal profile**

Fiscal Indicator	2003	2004	2005	2006	2007	5-year average (2003-2007)
Gross Domestic Product (₦' billion) at Current Prices	9,913.50	11,411.10	14,572.20	18,564.60	22,848.90	15,462.06
<b>Total Expenditure of all three tiers of government (₦' billion)</b>	<b>2,492.06</b>	<b>3,090.36</b>	<b>3,986.28</b>	<b>4,291.55</b>	<b>5,394.44</b>	<b>3,850.94</b>
Federal Government share of total public expenditure (%)	48.52	48.67	48.16	47.49	45.43	47.66
State Governments share of total public expenditure (%)	36.96	36.41	37.09	37.00	39.23	37.34
Internally generated revenue as % of total state governments' expenditure	12.89	11.93	8.30	7.89	14.45	11.09
Local Governments share of total public expenditure (%)	14.52	14.92	14.75	15.51	15.34	15.00
Internally generated revenue as % of total local governments' expenditure	5.58	4.86	4.08	3.48	2.57	2
All governments' expenditure as % of GDP	25.14	27.08	27.36	23.12	23.61	24.91
<b>Total Recurrent Expenditure by all Governments (₦' billion)</b>	<b>1,738.31</b>	<b>1,963.21</b>	<b>2,484.92</b>	<b>2,682.67</b>	<b>3,490.33</b>	<b>2,471.89</b>
Federal government share of total recurrent expenditure (%)	56.46	56.58	53.17	51.82	45.53	51.72
State governments share of total recurrent expenditure share (%)	31.37	28.36	31.76	33.34	34.88	32.39
Local government share of total recurrent expenditure (%)	12.17	15.06	15.07	14.84	19.59	15.89
<b>Total Capital Expenditure by all Governments (₦' billion)</b>	<b>715.92</b>	<b>929.63</b>	<b>1,247.62</b>	<b>1,405.08</b>	<b>1,757.89</b>	<b>1,211.23</b>
Federal government share of total capital expenditure (%)	33.77	37.79	41.63	39.31	43.19	40.03
State governments share of total capital expenditure (%)	45.26	44.42	41.26	41.63	48.63	44.44
Local governments share of total capital expenditure (%)	20.97	17.79	17.11	19.05	18.18	15.53

**Source:** Computations based on data from CBN Annual Report and Statement of Accounts for the year ending 31 December 2007.