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Fiscal Federalism and Public Spending: Implications of Revenue Deficits on Expenditure Patterns of Government in Nigeria

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Abstract:
Fiscal decentralization has become fashionable regardless of the levels of development and civilization of societies. Nations are turning to devolution to improve the performance of their public sectors. Fiscal federalism is concerned with the allocation of government resources, tax-raising powers, and spending powers to the various tiers of government. Despite the existing fiscal arrangement in the country, backed by the constitution, revenue deficits continue to impede government performance at all levels. The study aims to assess the impact of fiscal federalism on the structure of public spending in Nigeria. Friedman's theory of public expenditure was used as the theoretical underpinning of the study. The study adopted a mixed methodological approach to carry out the investigation. Documentary sources were used for data collection, while data analysis was done using descriptive statistics and content analysis. Findings of the study revealed that revenue yields had continued to dwindle in Nigeria at both national and sub-national levels between 2011 and 2021. The decline in government revenue yields was caused by the fall in global oil prices and the lethargic nature of the non-oil sector. The study also established that the consequence of the feeble revenue base was that resultant government spending was directed more towards financing recurrent expenditure at the detriment of capital expenditure, thus crippling the drive to spur economic development. The study recommends that it is critical for the government to:

- *Obliterate the present monolithic oil economy by emphasizing economic diversification to boost the financial base of the country and*
- *Prioritize public spending in favor of capital expenditure to propel economic growth and development.*

Keywords: *Fiscal federalism, fiscal decentralization, government revenue, public spending, capital expenditure, recurrent expenditure*

1. Introduction

Decentralized government systems give rise to a set of fiscal exigencies referred to as fiscal federalism, also known as fiscal decentralization. Fiscal decentralization has become fashionable regardless of the levels of development and civilization of societies. Nations are turning to devolution to improve the performance of their public sectors. Fiscal federalism is essentially about the allocation of government resources, tax-raising powers, and spending powers to the various tiers of government (Arowolo, 2011; Ewetan, 2012; Oates, 1999). In undertaking this division, the emphasis is on the need to focus on the necessity for improving the performance of the public sector and the provision of their services by ensuring a proper alignment of responsibilities and fiscal instruments (Arowolo, 2011; Moges, 2013).

In the developed global north, central governments have given significant portions of federal authority to the states for a wide range of major programs, including welfare, medical care, legal services, housing, and job training. The hope is that state and local governments, being closer to the people, will be more responsive to the particular preferences of their constituencies and will be able to find new and better ways to provide these services. In the developing global south, countries have shown widespread interest in fiscal decentralization with the objective of breaking the grip of central planning that, in the view of many, has failed to bring these nations onto a path of self-sustaining growth (Oates, 1999).

However, the proper goal of restructuring the public sector cannot simply be decentralization. The public sector in nearly all countries consists of several different levels. The basic issue is one of aligning responsibilities and fiscal instruments with the proper levels of government. Alexis de Toqueville (1980), cited in Oates (1999), observed that the federal system was created to combine the different advantages resulting from the magnitude and the littleness of nations. However, to realize these 'different advantages', there is a need to understand which functions and instruments are best centralized and which are best placed in the sphere of decentralized levels of government. This is the subject matter of fiscal federalism.

Relative to theory and international best practices, Nigeria's fiscal federalism presents multiple paradoxes. Not only are the current provisions of inter-governmental fiscal transfers, tax assignments, and revenue management counter-intuitive, they have within them the seed of perverse and obstinate incentives for the federating units (Agu, 2010; Akindele, Olaopa & Obiyan; 2002).

One of the most crucial challenges to Nigeria's fiscal federalism is the inability of states to raise, retain and manage revenue. Revenue bases at both national and sub-national levels are small, volatile, and monolithic. However, it seems Nigeria suffers the most at its subnational levels. Sub-national governments in the country perennially complain about the lean resource base relative to their huge fiscal responsibilities (Agu, 2010; Dang, 2013; Ewetan, 2012; Ohiomu & Oluyemi, 2018). Revenue deficits are inextricably linked to government spending capacities, which in turn affect public service delivery and development.

2. Objectives of the Study

The study aims to explore the impact of fiscal federalism on the structure of public spending in Nigeria. In specific terms, the study aims to:

- Examine revenue yields for the tiers of government in Nigeria
- Assess how government revenue yields have affected public spending in Nigeria
- Analyze the structure of public spending in Nigeria

3. Conceptual Review

3.1. Fiscal Federalism

Oates (1999:1120) defines fiscal federalism as the study of how competencies (expenditure side) and fiscal instruments (revenue side) are allocated across different (vertical) layers of the administration. As originally developed by Musgrave (1959) and Oates (1972), the 'theory of fiscal federalism' concerns the division of public-sector functions and finances logically among multiple layers of government (King 1984, cited in Bird, n.d). In undertaking this division, the emphasis is on the need to focus on the necessity for improving the performance of the public sector and the provision of their services by ensuring a proper alignment of responsibilities and fiscal instruments (Arowolo, 2011; Shah, Rajaraman & Rezende, n.d.).

3.2. Public Spending

Public spending, also called government spending or government expenditure, refers to expenses incurred by the government for the maintenance of itself and provision of public goods, services, and works needed to foster or promote economic growth and improve the welfare of people in society. Government (public) expenditures usually have both capital and recurrent components. Capital expenditure refers to:

- The amount spent on the acquisition of fixed (productive) assets (whose useful life extends beyond the accounting or fiscal year) and
- The expenditure incurred in the upgrade/improvement of existing fixed assets such as lands, buildings, roads, machines, equipment, etc., including intangible assets

Recurrent expenditure, on the other hand, refers to expenditure on the purchase of goods and services, wages and salaries, operations, and current grants and subsidies (usually classified as transfer payments). Recurrent expenditure, excluding transfer payments, is also referred to as government final consumption expenditure (Agu, Okwo, Ugwunta & Idike, 2015; Aigheyisi, 2013; Darma, 2014; Edame & Akpan, 2013).

4. Review of Related Literature

4.1. Fiscal Federalism and Revenue Allocation in Nigeria

Revenue allocation refers to the redistribution of fiscal capacity between the various levels of government or the disposition of fiscal responsibilities between tiers of government. Revenue allocation arrangement is at two levels:

- The first is the vertical allocation which deals with revenue sharing among federal, state, and local councils,
- The second is the horizontal allocation which deals with revenue sharing among the states and the local governments

Revenue allocation is meant to attain two broad objectives: Efficiency and Equity (Bird, n.d.; Salami, 2011; Shah, Rajaraman & Rezende, n.d.)

Revenue allocation in Nigeria commenced under the Richard Constitution of 1946. Thereafter, there were over nine fiscal commissions, six military decrees, and one act of parliament to design appropriate tax assignment and revenue allocation formulae, including:

- The Hicks-Phillipson Commission (1951),
- Chick's Commission (1953),

- Raisman Commission of (1958),
- Binns Commission (1964),
- Dina Commission (1968),
- Aboyade Technical Committee (1972),
- Okigbo Commission (1980),
- Danjuma Commission (1988), and
- National Revenue Mobilization, Allocation and Fiscal Commission (1989) (Dang, 2013; Elekwa, Bello & Akume, 2011; Ohiomu & Oluyemi, 2018; Okunrounmu, 1996; Salami, 2007).

The recommendations of all the commissions were all based on the need to have the equitable and balanced horizontal and vertical allocation for the country.

Since 1989 when the National Revenue Mobilization, Allocation and Fiscal Commission was established, revenue allocation among states/local governments has been based on the following principles:

- Equality,
- Population,
- Social development,
- Internally generated revenue and
- Landmass/terrain

The importance attached to each of these principles is reflected in the weight given to each principle. The principles represent the factors that govern the application of revenue allocation, such as population, derivation, landmass, and national interest. The formula refers to the relative weight attached to each principle (Ohiomu & Oluyemi, 2018; Okunroumu, 1996; Salami, 2011).

The Federal Government retains some of the federally collected revenues as its independent revenues, and the balance of the federally collected revenues is to be paid into the Federation Account for distribution among tiers of government in accordance with an agreed formula. Before independence, the regional government allocation was more than that of the Federal Government. The sharing formula in 1958, as recommended by the Raisman commission, was 40:60 in favor of region. Thereafter, the federal government has been allocated the highest share of the federally collected revenues (Okunroumu, 1996; Salami, 2011).

In 1992 the vertical allocation was changed to 48.5%, 24%, and 20% for federal, state, and local government, respectively. Special funds accounted for 7.5 %. The current vertical allocation (without the special funds) with effect from 2002 is 52.68%, 26.72%, and 20.60% for federal, state, and local government, respectively.

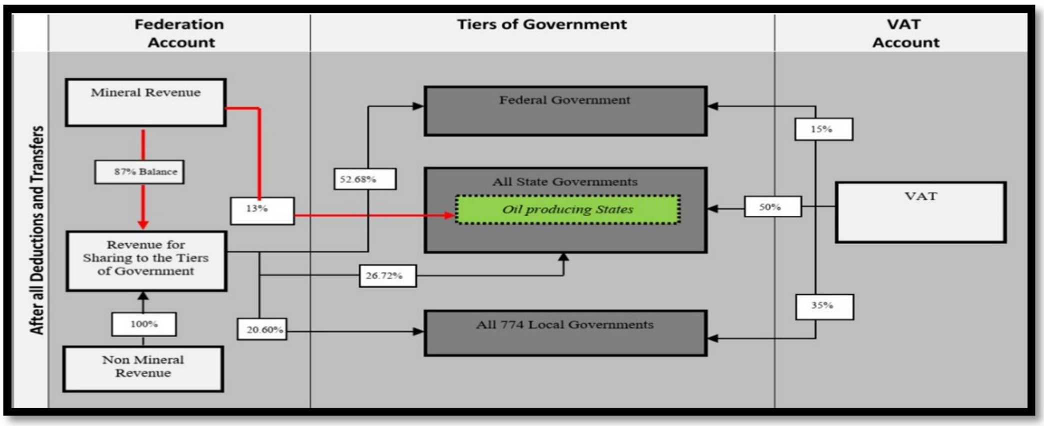


Figure 1: Federation Revenue Vertical Sharing Model
Source: NEITI FASD Audit, 2012-2016, NEITI FASD Audit, 2017-2019

The derivation account phased out by the Military regime was re-established in 1999. The account was as high as 50 % in 1958. Presently, the derivation account is 13% of the revenues obtained from oil produced on-shore, that is, on the land areas of each of the nine oil-producing states: Abia, Akwa Ibom, Bayelsa, Cross River, Delta, Edo, Rivers, Imo, Ondo. Nigeria is perhaps the only known federation that applies the derivation principle to federal oil revenues. The Federation Account excludes the derivation account. It also excludes the various federal government dedicated accounts with:

- First charge AFEM Surplus Account,
- Petroleum Trust Funds,
- National Priority Project Funds,
- External Service Funds,
- NNPC Joint Venture Payment Account, and
- Educational Tax Funds

Consequent to making provisions for all these funds and the derivation account, the balance of the total federally collected revenues paid into the federation account in 2008 was less than 60%, down from over 90% in 1970 (Salami, 2011).

Tiers of Government	MR+NMR (%)	VAT (%)
Federal Government	52.68	15
State Government	26.72	50
Local Government Councils	20.6	35

Table 1: Federation Revenue Vertical Sharing Formula
Source: NEITI FASD Audit, 2012 – 2016; NEITI FASD Audit, 2017 – 2019

VAT, introduced in 1994 to replace the Sales Tax, also has the first charge to federally collected revenues and is paid into a special fund called the VAT Pool Account and subsequently shared among the three levels of government. Initially, the lion's share of the VAT allocation went to the federal government. However, with current reviews, the federal government is allocated (15%), state governments (50%), and Local governments (35%) (Table 1).

Horizontal allocation among state and local government councils in Nigeria favored states with large land areas, large number of councils, high populations, and in some instances, derivation principle. Before 1964, derivation was given the greatest weight, 50% in horizontal revenue allocation. The balance was shared among the regions based on the principle of equality of state (50%) and population (50%). Between 1964 and 1976, there was no derivation. The principle of equality of state and population was still given equal weights of 50% in the allocation of revenues among the states. Between 1977 and 1981, equal access to development opportunities had a weight of 25%, the national minimum standard had a weight of 22%, absorptive capacity had a weight of 20%, independent revenue efforts had a weight of 18%, and fiscal efficiency had a weight of 15% (Dang, 2013; Ohiomu & Oluyemi, 2018; Okunroumu, 1996; Salami, 2011).

Between 1982 and 1998, the equality of states had a weight of 40%, population 30%, independent revenue efforts had a weight of 10%, land mass and terrain had a weight of 10%, and social development had a weight of 10%. From 1999, equality of state had the highest weight of 40% under horizontal allocation among the states. This was followed by population with 30%. The balance of 30% was equally shared by the social development factor (10%), land mass (10%), and internal revenue effort (10%), respectively. For the distribution of VAT proceeds among states and local governments, the indices were derivation (20%), equality (50%), and population (30%).

The horizontal distribution formula had remained stable since 1981, except for the increase in derivation principle for mineral revenue to 13 % in 1999 in the oil-producing states. As a result, all oil-producing states began to receive the highest amount from the federation account (See figure 1). However, the revenues allocated to oil-producing areas over the years have not been sufficient to remedy the negative externalities of oil production, let alone grant them access to equal opportunities for development with other states of Nigeria (Jimoh, 2003; Vincent, 2002).

4.2. Fiscal Federalism and Tax Revenue Jurisdiction in Nigeria

There is a growing realization in Nigeria of the need to encourage the states to generate or mobilize independent revenues of their own, so they will come to regard federal allocations as a supplement to, rather than as the major source of, their revenues. Such an outcome would have the distinct advantage of reducing the intensity and destructiveness of current inter-governmental and inter-segmental competition for centrally controlled resources (Akindele, Olaopa & Obiyan; 2002; Salami, 2011).

The assignments of the fiscal instrument in Nigeria are guided by constitutional provisions. The federal constitution gives the federal government exclusive power to collect levies like customs and excise, company tax, education tax and mining rents, VAT, etc. All these revenues (with the exception of education tax) are paid into the federation account for distribution among the three tiers of government in line with the constitutional provisions. The states and local governments are left with the power to collect other fees (Oti & Odey, 2016). The main types of tax revenue for the federal and sub-national governments are listed in table 2. Nigeria's local governments have the autonomy to perform their functions in line with the constitution. However, the autonomy of local governments is not absolute. They retain their functions and fiscal relations with states and the federal government.

S/N	Tax	Legal Jurisdiction	Collection	Retention
1	Import duties	Federal	Federal	Federation Account
2	Excise duties	Federal	Federal	Federation Account
3	Export duties	Federal	Federal	Federation Account
4	Mining rents & royalty	Federal	Federal	Federation Account
5	Petroleum profits tax	Federal	Federal	Federation Account
6	Capital gains tax	Federal	State	State
7	Personal income tax (other than listed in 8)	Federal	State	State
8	Personal income tax (Armed and police forces, external affairs officers, non-residents, residents of the Federal Capital Territory)	Federal	Federal	Federal
9	Value added tax (Sales tax before 1994)	Federal	Federal/ State	Federal/ State
10	Company tax	Federal	Federal	Federation Account
11	Stamp duties	Federal	State	State

S/N	Tax	Legal Jurisdiction	Collection	Retention
12	Gift tax	Federal	State	State
13	Property tax and ratings	State	State/Local	State/Local
14	Licenses and fees	Local	Local	Local
15	Motor park dues	Local	Local	Local
16	Motor vehicle	State	Local	Local
17	Capital transfer tax (CTT)	Federal	State	State
18	Pools betting and other betting taxes	State	State	State
19	Entertainment tax	State	State	State
20	Land registration and survey fees	State	State	State
21	Market and trading license and fees	State	Local	Local

Table 2: Tax Revenue Jurisdiction in Nigeria
Source: Salami, 2011

Over the last three decades, the sources of public revenue in Nigeria were proceeds from the sale of crude oil, taxes, levies, fines, tolls, penalties, and charges. Oil revenues were the main source of public revenue, accounting for about 80% to 85% of the total revenue (CBN, 2021). In the period 2001-09, oil revenues averaged 27% of GDP while tax revenues averaged 6.4%. Oil revenues have been volatile, ranging from 35.6% in 2001 to 19.6% in 2009, when oil prices dropped due to the global recession. In Africa, Nigeria, like Algeria, Angola, Equatorial Guinea, and Libya, rely almost entirely on oil revenues, unlike Kenya, South Africa, and Mauritania that show a relatively balanced mix of different revenue sources (Salami, 2011).

The lion's share of total Nigerian revenues is collected and retained by the federal government. For instance, between 1980 and 2008, about 93.9% of the total government revenues were collected by the federal government. This is not unexpected as the federal government is solely responsible for collecting mining rights and royalties, petroleum profit tax (Nigeria's major revenue source), and sharing VAT collection with state governments. This implies that the sum of local and state governments' revenues accounted for less than 7% of government's total revenues (Akindele, Olaopa & Obiyan, 2002; Ohiomu & Oluyemi, 2018; Salami, 2011).

4.3. Nexus between Fiscal Federalism and Public Spending

Fiscal Federalism is characterized by the fiscal relations between central and lower levels of government. That is, it is manifest by the financial aspects of the devolvement of authority from the national to the regional and local levels. Fiscal federalism covers two interconnected areas:

- The first is the division of competence in decision-making about public expenditures and public revenue between the different levels of government (national, regional, and local)
- The second is the degree of freedom of decision-making enjoyed by regional and local authorities in assessing local taxes and determining their expenditures (Arowolo, 2011; Kesner-Skreb, 2009)

From the above explanations, it can be deduced that fiscal federalism is instrumental in determining the revenue-raising capacities of the tiers of government, which in turn enables them to fulfill their constitutional responsibilities. The requirement of governments to provide public goods and execute other developmental projects that would improve the living standard of the citizenry as well as meet its recurrent expenditure, necessitate intensified revenue generation efforts both internally and externally (Ejoh, Okpa & Ogon, 2016).

The increasing cost of running government coupled with dwindling revenue has led the government in Nigeria to formulate strategies to improve the revenue base. Despite the numerous sources of revenue available to the various tiers of government as specified in the Nigeria 1999 constitution, from the 1970s till now, over 80% of the annual revenue of the three tiers of government comes from petroleum. However, the serious decline in the price of oil in recent years has led to a decrease in the funds available for distribution to the three tiers of government.

Therefore, the need for state and local governments to generate adequate revenue from internal sources has become a matter of extreme urgency and importance. This need underscores the eagerness of state and local governments and even the federal government to look for new sources of revenue or to become aggressive and innovative in collecting revenue from existing sources (Adenugba & Ogechi, 2013). Apart from being instrumental in determining the revenue generation capacity of government, fiscal federalism is also pivotal to the determination of the spending abilities of government (Algaeed, 2022; Hanif, Wallace & Gago-de-Santos, 2020; Nyasha & Odhiambo, 2019; Ukwueze, 2015).

5. Theoretical Framework

Friedman's theory of public expenditure (1978) was used as the theoretical underpinning of the study. Friedman's theory (1978) establishes a tax-and-spend hypothesis about government revenues and expenditures. He argues that expenditures as adjusting up or down, to whatever level can be supported by revenues. Thus, if government authorities increase the taxes, the resources that will be available for the government will be increased in the attempt to reduce the budget deficits, and there will only be results in increased government spending (Friedman, 1978: 1979). In summary, the theory maintains that there is causal relation running from revenues to expenditures (Richter & Dimitrois, 2013).

In applying the theory, the study maintains that the size of government finance and its impact on economic growth has emerged as a major fiscal management issue facing economies in transition. The exigency and requirement for government expenditure in Nigeria has been on the rise owing to the increased demand for public goods and social programs. However, public expenditure growth is a function of revenue, as public revenue determines the capacity of the government to administer its responsibilities. Public expenditure growth, in turn, has the propensity to bring about a substantial increase in public sector size.

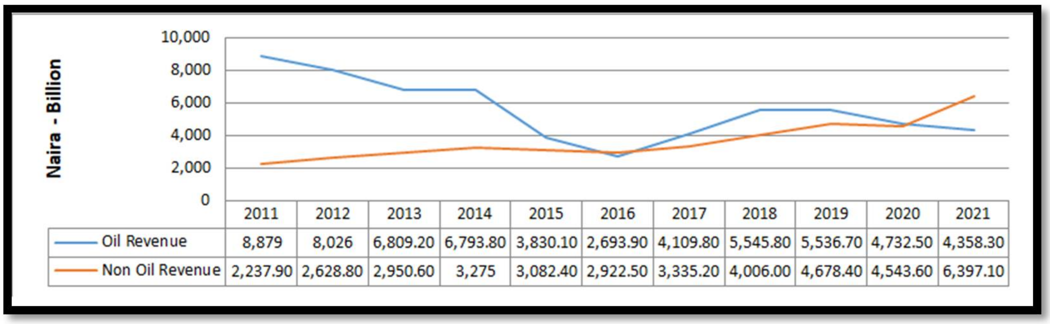
6. Methodology

The study adopted a mixed methodological approach to carry out the investigation. Documentary sources were used for data collection. Thus, data were derived from annual reports and statistical bulletins of the Central Bank of Nigeria (CBN), Federal Ministry of Finance (FMF), Office of the Accountant General of the Federation (OAGF), and the Nigeria Extractive Industries Transparency Initiative (NEITI) – [NEITI Fiscal Allocation and Statutory Disbursement (FASD) audit reports], as well as other published materials such as books, journal articles, and internet documents. Data analysis was done using descriptive statistics and content analysis.

7. Discussions and Findings

7.1. Examining Revenue Yields for the Tiers of Government in Nigeria

Section 162 (Public Revenue) of the 1999 constitution of the FRN defines the Federation Revenue as any income or return accruing to or derived by the Government of the Federation from any source. Basically, Nigeria's government revenue composition is bifurcated into oil and oil revenue. The oil revenue includes proceeds from the sales of crude oil, petroleum profit tax, rents, and royalties. In contrast, the components of non-oil revenues are companies' income tax, customs and excise duties, value-added tax, and personal income tax (figure 1) (CBN, 2021, FMF & OAGF, 2021). Figure 1 reveals that oil revenue has been the dominant source of government revenue, contributing over 70 percent to federally collected revenue.



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Oil Revenue	8,879	8,026	6,809.20	6,793.80	3,830.10	2,693.90	4,109.80	5,545.80	5,536.70	4,732.50	4,358.30
Non Oil Revenue	2,237.90	2,628.80	2,950.60	3,275	3,082.40	2,922.50	3,335.20	4,006.00	4,678.40	4,543.60	6,397.10

Figure 2: Composition of Government Revenue – Federation Account, 2011 - 2021
Source: CBN Statistical Bulletin, 2011 – 2021, FMF & OAGF Data, 2011 – 2021

Nigeria operates a federal system of government comprising the central government, 36 states (and the FCT in Abuja), and 774 local governments. Revenue sources for the three tiers of government in Nigeria are spelt out by the constitution. Table 3 below reveals the revenue yields by the three tiers of government in Nigeria from 2011 to 2021.

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Federal	3,237.04	3,451.76	3,711.75	3,404.45	2,600.98	2,081.41	2,563.97	3,483.89	3,344.56	3,028.04	3,127.56	34,035.41
State	1,921.61	2,084.69	2,251.34	2,062.63	1,597.64	1,347.23	1,685.38	2,210.73	2,174.97	2,117.19	2,392.12	21,845.53
Local	1,459.35	1,583.01	1,708.58	1,563.15	1,205.19	1,011.04	1,263.32	1,667.25	1,636.76	1,583.61	1,776.79	16,458.05
Total	6,618.00	7,119.46	7,671.67	7,030.23	5,403.81	4,439.68	5,512.67	7,361.87	7,156.29	6,728.84	7,296.47	72,338.99

Table 3: Revenue Yields for the Three Tiers of Government in Nigeria, 2011 – 2021 (N' Billion)
Source: CBN Statistical Bulletin, 2011 – 2021; FMF & OAGF Data, 2011 – 2021

From table 3 above, it can be observed that the total revenue yield of the three tiers of government from 2011-2021 was ₦72.3 billion. Annual data shows that revenue yield was highest in 2013 (₦7.6 billion) and continued to drop until 2016 (₦4.4 billion). From ₦5.5 billion in 2017, revenue yields continued to fluctuate till 2021, when ₦7.2 billion was recorded. It can also be seen from table 3 that revenue yield per government tier per annum continued to accrue more to the federal government than to the states and local governments. Shrinking and vacillating annual revenues also meant dwindling revenues for the three tiers of government, with the subnational governments being more disadvantaged.

7.2. Government Revenue Yields and Public Spending in Nigeria

Data in table 4 shows the Federal government's expenditure in primary welfare sectors. Analysis of spending on primary welfare sectors indicates that outlay on education was highest in 2014 (8.4%) but dropped to 7.1% in 2019. Expenditure on health also declined from 5.8% in 2015 to 4.9% in 2019. Agricultural expenditure rose from 2013 (1.8%) to 2015 (2.3%) but dropped to 2.2% in 2019. Roads and construction rose from 3.9% (2013) to 5.0% (2015) and 5.4% (2018) but dropped to 5.1% in 2019. The Federal Government's expenditure, as shown, indicates unstable and declining public spending.

Welfare Sectors	2013	2014	2015	2016	2017	2018	2019
Education	8.2	8.4	7.1	7.1	6.4	6.9	7.1
Health	4.1	5.2	5.8	4.4	4.4	4.7	4.9
Agriculture	1.8	2.1	2.3	1.5	2.0	2.3	2.2
Roads & Construction	3.9	5.6	5.0	3.7	4.7	5.4	5.1

Table 4: Federal Government's Expenditure in Primary Welfare Sectors (Percent of Total Expenditure)
Source: CBN Annual Reports, 2013 – 2019
Note: CBN Annual Reports, 2020 & 2021 Not Yet Published

Analysis of spending on primary welfare sectors by state governments (in table 5) reveals that the outlay on education was 9.1% (2014) but dropped to 6.4% (2019). Also, expenditure on health rose from 4.2% (2013) to 8.4% (2014) but dropped to 5.2% in 2019. Spending on agriculture showed a decline from 2013 (4.2%) to 2015 (2.5%), accompanied by a rise from the same year to 2019 (5.0%). However, expenditure on water supply and housing shows a decline from 2.7% (2013) and 1.6% (2013) to 1.5% (2019) and 1.0% (2019), respectively. From the above data, it can be extrapolated that state government expenditures have continued to be unstable and declining.

Welfare Sectors	2013	2014	2015	2016	2017	2018	2019
Education	7.2	9.1	5.7	5.0	8.3	6.3	6.4
Health	4.2	8.4	7.0	3.3	7.2	5.6	5.2
Agriculture	4.2	4.0	2.5	2.9	3.3	3.0	5.0
Water supply	2.7	1.4	1.4	1.6	1.5	1.5	1.5
Housing	1.6	3.2	1.4	0.6	1.5	1.1	1.0

Table 5: State Governments' Expenditure in Primary Welfare Sectors (Percent of Total Expenditure)
Source: CBN Annual Reports, 2013 – 2019
Note: CBN Annual Reports, 2020 & 2021 Not Yet Published

Table 6 shows the local government's expenditure in primary welfare sectors. From the table, it can be seen that the outlay on education increased from 32.5% (2013) to 36.3% (2015). However, it continued to drop from 2015 (36.3%) to 2019 (29.1%). Also, expenditure on health and agriculture experienced similar trends. It was 8.0% (2013) and 2.8% (2013), but dropped steadily to 1.9% (2019) and 0.8% (2019) respectively. Similarly, water supply and housing recorded 1.3% (2013) and 1.2% (2013) and thereafter witnessed fluctuations with marginal increments, but eventually dropped to 0.7% (2019) and 0.2% (2019), respectively.

Welfare Sectors	2013	2014	2015	2016	2017	2018	2019
Education	32.5	33.5	36.3	35.1	30.4	28.2	29.1
Health	8.0	4.1	3.3	2.0	1.6	1.9	1.9
Agriculture	2.8	1.5	0.6	0.7	0.7	0.8	0.8
Water supply	1.3	0.4	0.7	0.3	0.2	0.7	0.7
Housing	1.2	2.5	0.3	1.0	0.5	0.2	0.2

Table 6: Local Governments' Expenditure in Primary Welfare Sectors (Percent of Total Expenditure)
Source: CBN Annual Reports, 2013 – 2019
Note: CBN Annual Reports, 2020 & 2021 Not Yet Published

The critical facts about Nigeria's public expenditure are reflective of the nature of public revenue. As shown by the above analysis, public revenue in Nigeria is inadequate and unstable. The inadequacy reflects the low productivity of the economy as a whole, while the instability reflects the over-reliance on oil which is a volatile source of revenue. The major cause of revenue volatility is a combination of two factors: the large and unpredictable fluctuations in oil revenue and the large share of oil revenue in total revenue. The second factor is a direct function of the small size and low growth of non-oil revenue (Aruwa, 2012).

7.3. Examining the Structure of Public Spending in Nigeria

Figure 3 shows the nature of the Federal government's expenditure from 2011 to 2021. The chart reveals that recurrent expenditure had always exceeded capital expenditure. In 2011, recurrent stood at ₦3.3 billion (78%), while capital expenditure was ₦918 million (22%). In 2016 (median year), recurrent expenditure stood at ₦4.1 billion (86%), while capital expenditure was ₦653 million (14%). In 2021, recurrent expenditure stood at ₦9.1 billion (78%), while capital expenditure was ₦2.5 billion (22%). The aggregate of recurrent and capital expenditures from 2011 to 2021 was ₦56.5 billion and ₦14.5 billion, respectively. This accounts for a 58% difference between aggregate recurrent and aggregate capital expenditure.

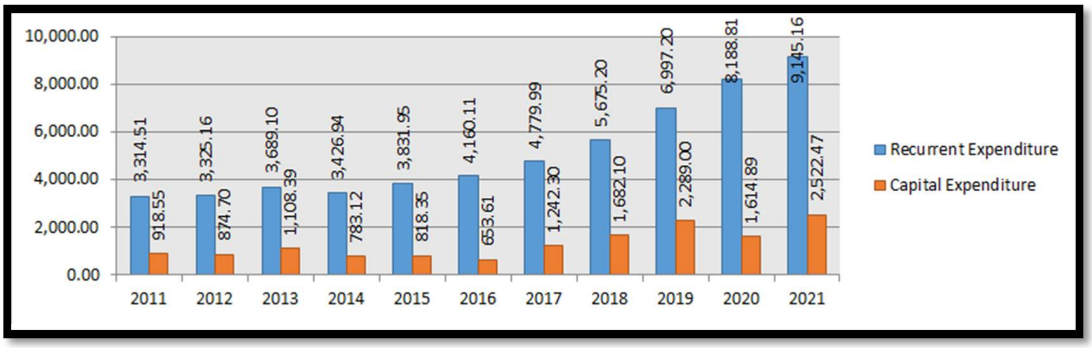


Figure 3: Federal Government's Expenditure, 2011 – 2021 (₦'Billion)
Source: CBN Statistical Bulletin, 2011 – 2021

Figure 4 shows the trajectory of the state government's expenditure from 2011 to 2021. The structure of the state government's expenditure follows a similar trend to that of the Federal government. The only exception is in 2012 when recurrent expenditure fell below capital expenditure [₦1.6 billion (46%) and ₦1.9 billion (54%), respectively]. In 2016 (median year), recurrent expenditure recorded ₦2 billion (63%), while capital expenditure recorded ₦1.2 billion (37%). In 2021, recurrent expenditure recorded ₦4 billion (77%) while capital expenditure recorded ₦1.1 billion (23%). The aggregate of expenditures from 2011 to 2021 was ₦28.8 billion (65%) for recurrent expenditure and ₦15.3 billion (35%) for capital expenditure. This indicates a 30% difference between aggregate recurrent and aggregate capital expenditure.

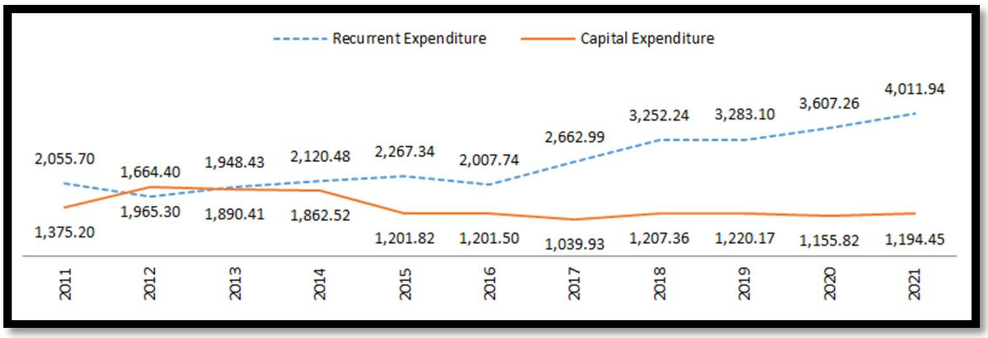


Figure 4: State Governments' Expenditure, 2011 – 2021 (₦'Billion)
Source: CBN Statistical Bulletin, 2011 – 2021

Figure 5 shows the configuration of local government's expenditure from 2011 to 2021. The chart reveals a wide gap between recurrent and capital expenditure, with recurrent expenditure always being at the upper point. In 2011, recurrent expenditure amounted to ₦1.2 billion (78%), while capital expenditure was ₦352 million (22%). In 2016 (median year), recurrent expenditure amounted to ₦994 million (92%), while capital expenditure was ₦90 million (8%). In 2021, recurrent expenditure amounted to ₦1.5 million (83%), while capital expenditure was ₦314 million (17%). The aggregate for recurrent and capital expenditures from 2011 to 2021 was ₦14.4 billion (84%) and ₦2.7 billion (16%), respectively. This accounts for a 58% difference between aggregate recurrent and aggregate capital expenditures.

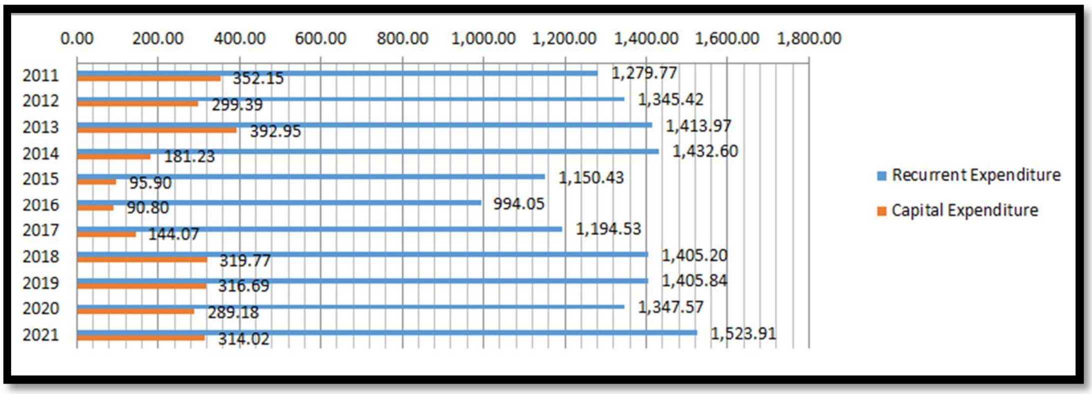


Figure 5: Local Governments' Expenditure, 2011 – 2021 (₦'Billion)
Source: CBN Statistical Bulletin, 2011 – 2021

Thus, from the above analysis, it can be maintained that government spending patterns for the three tiers of government favours recurrent spending against capital spending. This, of course, is not good for economic development since recurrent spending is basically consumption spending, while capital spending is direct investment spending. It is capital spending that brings forth capital goods that support rapid development. That is to say, capital spending is directly tied to development plans.

8. Summary of Findings

- Revenue yields continued to dwindle in Nigeria at both national and sub-national levels between 2011 and 2021.
- The decline in government revenue yields was caused by the fall in global oil prices and the lethargic nature of the non-oil sector.
- The consequence of the feeble revenue base was that resultant government spending was directed more towards financing recurrent expenditure at the detriment of capital expenditure, thus crippling the drive to spur economic development.

9. Conclusion

Nigeria's fiscal federalism unfolds several complexities. Fiscal transfers and revenue assignments tend to be counter-intuitive and constitute perverse incentives for the federating units. Thus, the revenue base for both national and sub-national levels is inadequate and unstable. The inadequacy reflects the low productivity of the economy as a whole, while the instability reflects the over-reliance on one particularly volatile source of revenue – oil. Revenue deficits are inextricably linked to government spending capacities. Given the shortfalls and volatility of revenues, adjustment and stabilization measures become imperative for the government in public financial management.

10. Recommendations

Based on the findings of the study, the following recommendations were suggested:

- It is critical for government to obliterate the present monolithic oil economy by emphasizing economic diversification to boost the financial base of the country
- Improved planning and budgeting systems and robust transparency and accountability in revenue management are strongly required to control fiscal shocks caused by the global financial crisis
- The government should prioritize public spending in favor of capital expenditure to propel economic growth and development

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