BECANS WORKING PAPER 3

Budget and Public Expenditure across Nigerian States

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List of Acronyms and Abbreviations

BECANS	Business Environment and Competitiveness across Nigerian States
CBN	Central Bank of Nigeria
FAR	Federation Account Revenue
FCT	Federal Capital Territory
GDP	Gross Domestic Product
IGR	Internally Generated Revenue
MDAs	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
MTEF	Medium-Term Expenditure Framework
NEEDS	National Economic Empowerment and Development Strategy
NPC	National Planning Commission
PAYE	Pay As You Earn
PSIA	Poverty and Social Impact Analysis
RER	Real Exchange Rate
RMAFC	Revenue Mobilization, Allocation and Fiscal Commission
SEEDS	State Economic Empowerment and Development Strategy
TOT	Terms of Trade
UNDP	United Nations Development Programme
VAT	Value Added Tax

ABOUT BECANS WORKING PAPER SERIES

BECANS Working Paper Series publishes the technical outputs from research, survey and analysis of the business environment and competitiveness across Nigerian states. It disseminates both theoretical and empirical research. The objective is to enrich policy debate and stimulate evidence-based dialogue between government and the private sector for improved investment climate across Nigeria. The Papers provide up-to-date literature, statistics and empirical analysis to situate and enlighten business environment reforms throughout Nigeria.

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Papers in the Series bear the names of the authors and should be used and cited accordingly. The findings, conclusions and interpretations expressed by the papers are those of the authors and do not necessarily represent the views and policies of AIAE or of the collaborating organisations.

ABSTRACT

This paper examines budget and public expenditure across Nigerian states, from 2001-2005. It is divided into six sections. Section One discusses the conceptual definitions and theoretical arguments. It contains two sub-sections. The first subsection deals with public spending and public goods. The second subsection describes the role of public expenditure in economic governance and macroeconomic stability. Section Two outlines the principles and practice of Nigeria's fiscal federalism and the structure of public finances among the levels of government. It reviews the assignment of development functions, tax jurisdictions and expenditure responsibilities across the tiers of government. Section Three presents and discusses evidence on budget and public spending at the state level. It analyses the budget orientation and spending behaviour of state governments and implications for economic governance and business environment at the state level. Section Four reviews the revenue sources and patterns of state governments, in relation to expenditure and loans. Section Five is an overview of budget and fiscal management at the state level. It recapitulates comparative evidence from recent comparative analysis across states. Section Six gives the conclusion and implications.

1.0 CONCEPTUAL ISSUES

1.1 Public Spending and Public Goods

Governments, all over the world, seek to provide public goods. Public goods[1] encapsulate allocation, distribution and stabilization objectives. The allocation function refers to assignment of roles between public and private sectors. The distribution function involves sharing incomes and resources to promote national unity and equity, while under the stabilization function, government ensures social, economic and monetary stability (Jimoh, 2003). The distribution of functions across the levels of government is shaped by the kind of public goods in question. For example, stabilization functions are usually assigned to central government, as the function would be inefficiently performed by lower tiers of government because of the divergence between national benefits and local benefits, divergence between national costs and local costs and free rider problems (Musgrave and Musgrave, 1989).

1 Public goods are of three kinds, namely, pure public goods, impure public goods and private goods. Private (publicly provided) goods are consumed individually and its consumption is contingent upon payment. Impure public goods are those collectively consumed but its consumption is contingent upon payment. Pure public goods are collectively consumed but consumption is not contingent upon payment - characterized by non-exclusivity and non-rivalry (Musgrave and Musgrave, 1989).

In line with the public goods argument, the Nigerian federal government would provide national public goods whose spatial incidence of externalities (positive or negative) covers the entire country, e.g. defence, immigration, etc. Extending the reasoning, state and local governments in Nigeria would provide local public goods whose spatial incidence of benefits is limited to a state or local area and conform to a unique taste or preference pattern. Sometimes, a local public good may provide substantial economies of scale and externalities. In such situations, efficiency objectives would be promoted if that public good is provided by the federal government rather than by the subnational levels of government (Musgrave and Musgrave, 1989, Jimoh, 2003).

In promoting development, the state provides common goods and services which among others facilitate the growth and development of private enterprise, through the creation of good business environment. One strategy for creating the right investment climate is for governments to intervene to correct market failures and maintain confidence in the market system. Market failure arises from the divergence between private and social costs or benefits and leads to inefficient resource allocation as well as development outcomes that may not be socially optimal (Eboh, 1999). Ample evidence on investment climate in Nigeria reveals that infrastructural weaknesses, institutional deficiencies and regulatory bottlenecks act as disincentive to private investments and businesses (Collier, 2006; Malik and Teal, 2006). Public spending aims at eliminating these deficiencies in order to promote investments, employment and economic growth.

Furthermore, governments undertake expenditures to pursue a variety of social and political goals. Public spending aims at tackling poverty and income inequality. For example, government often uses public spending to target special programmes of food and housing subsidies. Spending on health and education is crucial to welfare improvements, particularly for the poor. In this wise, public expenditure can be justified on the grounds of equity, to mitigate situations whereby private provision of goods and services will lead to a socially unacceptable distribution of income or large inequities in human development outcomes across socioeconomic groups (World Bank, 2002). For example, public spending is often directed at providing and/or regulating the provision of basic economic and social services including infrastructure, such as roads, airports, seaports, postage, telecommunications, electricity, waste disposal, and others.

Budgets and public spending are powerful tools of economic management and resource allocation. They also constitute mechanisms for the pursuit of national values. By the pattern of public spending the government expresses its policy priorities and development orientation.

The redistribution processes of public expenditure affects the population in a number of ways (Lionel, 2001). Public spending affects the macroeconomic conditions through impact on fiscal balance, rate of inflation and real incomes. Also, there are expenditure incidence or primary income effects of public spending. This describes a situation whereby public spending creates incomes directly, which in turn creates some other incomes through the income-expenditure multiplier process. Public expenditures generate transfers to the population, in the form of cash or monetary transfers, such as social assistance or social insurance payments, or in kind. Social insurance payments include subsidized government services such as health, education, and infrastructure services. In-kind transfers improve the current well-being of the beneficiaries, and also enhance their income-earning potential in the longer term.

1.2 Public Expenditure, Economic Governance and Macroeconomic Stability

Like every nation, public expenditure is at the heart of economic governance in Nigeria. The structure, efficiency and effectiveness of public spending impact upon the ability of government to create conducive business environment, deliver development goods and achieve national prosperity. In particular, the adequacy and quality of public goods such as infrastructure, utilities and related services largely depend on the nature and quality of public spending. On the other hand, the nature, conduct and levels of public expenditure affect the conditions of fiscal sustainability and macroeconomic framework of any country. In Nigeria, for example, over many years, fiscal imprudence and poor public financial management aggravated oil revenue-induced macroeconomic volatility. Budgets became almost pointless as extra-budgetary expenditures mounted, coupled with no medium-to-long term plans to which budgets would be linked (NPC, 2004).

Macroeconomic volatility, evidenced by rapid fluctuations in critical macroeconomic indicators, persisted for many years. Nigeria ranked among the top ten most volatile countries for the period 1961-2000 for all indicators except monetary growth and consumer price inflation (Addison, 2006). Moreover, Nigeria was in the top five countries for the volatility of real government revenues per capita, terms of trade (TOT) and real exchange rate (RER). Revenue volatility has remained unchanged, for example, the volatility for revenues over 2000-2005 is two and half times as much as volatility from 1991-2000 (Addison, 2006).

Theoretical and empirical research underscores the positive impact of macroeconomic stability, or conversely the adverse impact of macroeconomic volatility. While macroeconomic stability encourages private investment needed for growth and economic diversification, volatility induces less investment and reduces productivity. The volatility of macroeconomic aggregates diminishes price stability, thereby creating uncertainty in the business and investment environment. Lack of a sound macroeconomic framework is a constraint on development, as it makes planning difficult and investment more risky. Empirical research shows that private investment is depressed by extreme levels of risk and uncertainty (Bleaney and Greenway, 2001). In addition, shocks from revenue volatility negatively affect the delivery of public goods and services, mainly because of the increased uncertainty and erosion of budgetary planning and implementation. Revenue volatility also complicates monetary and exchange rate policy as well (Addison, 2006).

The volatility situation can be traced directly to extreme fiscal dependence on oil exports (exposure to international oil price shocks) coupled with inappropriate fiscal and public spending policies. While Nigeria has suffered quite considerable external shocks over time, wrong policy choices have aggravated the level and consequences of macroeconomic volatility. For many years, pro-cyclical expenditure behaviour amplified Nigeria's macroeconomic volatility. State and local governments as well as the federal government were actors in this volatility cycle.

Hence, fiscal reforms at all levels of government are imperative to insulate public finances from external shocks, in order to maintain stable and investment-friendly macroeconomic framework. In particular, a sound fiscal policy adds to macroeconomic stability by providing economic agents with expectations of a predictable economic environment. Public expenditure smoothing

(for example, through fiscal rules) would stabilize expenditures, diminish macroeconomic uncertainty and promote longer-term investment decisions and economic growth. Also, fiscal policy can promote growth and employment via appropriate adjustments of the level and composition of government taxes and expenditures. Reduced inefficiency and wastages in public spending can release resources to finance productivity-enhancing physical and human capital accumulation.

Against this backdrop, Nigeria has since 2004 been implementing budget and fiscal reforms under the National Economic Empowerment and Development Strategy (NEEDS). The Government of Nigeria has adopted fiscal strategy and public finance regimes underpinned by the medium-term expenditure framework (MTEF), deficit ceilings, oil price-based fiscal rule, tax reforms and public procurement (due process) and banking sector reforms. Government has embarked on a number of non-oil tax reforms consistent with revenue smoothing. Some key elements of the tax reforms include measures to broaden the tax base by simplifying the personal income tax schedule, simplifying the taxation system for small businesses and introducing taxpayer identification numbers. The reforms are aimed at establishing sound public finance system that is efficient, sustainable, predictable and effective in generating public goods and services.

It has also been recognised that strong financial systems can reduce the negative effects of macroeconomic volatility. The strength of the financial system is often measured in terms of the volume (share) of domestic credit to the private sector. Following key reforms of the financial sector, progress has been made on some macroeconomic indicators. For example, the average rate of consumer price inflation in 2003-2005 was 16% compared to 28% for 1993-2002. Equally encouraging is that fact that volatility in inflation decreased to 2% for 2003-2005 from 25% for 1993-2002 (Addison, 2006).

Government is also seeking to reduce long-run revenue volatility through promotion of high non-oil growth, domestic resource mobilization and economic diversification. State governments could increase their capacity to identify tax jurisdictions, administer tax services, improve revenue collection and correct distortions in the tax system. Nigeria collects no more than 2% of GDP from income taxes while other low income countries collect an average of 6% of GDP

(Addison, 2006). Diversification will help stabilize the volatility of the terms of trade and foster productivity growth. For example, the country recorded real non-oil GDP growth at an average of 7% per annum from 2003-2005, compared to an average of 4% per annum from 1993-2002 (CBN, 2005). Furthermore, the apparent correlation between consolidated expenditures and revenues has eased over the period 2003-2005 when the fiscal rule has been applied (Addison, 2006). Revenue smoothing will contribute to the sustainability and effectiveness of public expenditures for critical public services. Overall, the use of an expenditure smoothing fiscal rule and/or revenue smoothing is necessary for fiscal stabilization and lessened monetary volatility.

2.0 FISCAL FEDERALISM AND PUBLIC FINANCES AT THE STATE LEVEL

2.1 Principle underlying Fiscal Federalism

Fiscal federalism refers to the division of revenue-generating powers and expenditure responsibilities across the levels of government (political authorities) in a country. In Nigeria, fiscal federalism is operationalised through the assignment of tax-raising powers, revenue sharing and developmental functions (expenditure responsibilities) among federal, state and local governments. Theoretically, fiscal federalism is founded on the need for governments to provide different kinds of public goods in a socially optimal and economically efficient manner. Political expediency is also an important consideration underlying the practice of fiscal federalism.

Fiscal federalism is hinged on several principles including, among others, diversity, equivalence, centralized stabilization, correction of spillover effects and fiscal equalization (Ekpo, 2004). Based on the principle of diversity, the fiscal system should provide for variety and differences to supply national, regional and local public goods. On the other hand, the principle of equivalence recognizes that the geographical incidence of different public goods and the allocative efficiency criteria would necessitate the equalization of interjurisdictional locational advantages, through taxes and public goods provision (Ekpo, 2004). But, it is cautioned that decentralization may not always give the intended results. This is particularly so, where the scarcity of public sector administrative, financial and managerial capacity is more acute at the subnational level (Collier, 2006).

In a federal structure, every component part, to the extent allowed by the country's constitution, is able to exercise autonomy in the conduct of its affairs, free from direction by a higher level of government. But, depending on the country, the practice of federalism has peculiar political, economic and developmental features which often reflect responses to unique political and economic circumstances. In Nigeria, for example, the practice of fiscal federalism has been significantly impacted by political developments including the creation of additional region in 1963, creation of additional states in 1967, 1976, 1987, 1991 and 1996. Equally significant is the political distortion brought about by military rule in different periods since Nigeria's independence in 1960.

2.2 Division of Development Functions (expenditure responsibilities) across Levels of Government

Nigeria is a federation consisting of a federal government, 36 state governments plus the federal capital territory (FCT) and 774 local governments. This federal structure is tantamount to eight hundred and twelve (812) constitutionally created political authorities, and by implication, public expenditure decision/management centres. These 812 political authorities are connected through a web of revenue-generation, public spending, intergovernmental transfer and administrative relations. Since the return to democratic rule in 1999, the fiscal federalism debate has intensified as issues of resource rights, revenue entitlements and fiscal jurisdiction have come under greater scrutiny.

Fiscal federalism largely determines Nigeria's political economy, particularly the competition for fiscal space among the federal, state and local governments. Striking the balance between expenditure responsibilities (development assignments) and revenue rights/powers across the three levels of government is both contentious and complicated. The concerns about Nigeria's fiscal federalism include “excessive” centralization of resources and powers, at the expense of subnational levels of government. Others are vertical fiscal imbalances (i.e. mismatch of revenue means and expenditure needs) and horizontal fiscal imbalances (i.e. inconsistency between revenue-raising ability and revenue needs). Another problem is misallocation and wastage of resources arising from overlapping and uncoordinated expenditure responsibilities among different levels of government (Ukwu and others, 2005).

The assignment of responsibilities and functions to the tiers of government is stipulated by the Nigerian Constitution, 1999. 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 which are functions not assigned to Local Governments and neither contained in the Exclusive and Concurrent Lists. Table 1 presents a summary of the assigned development (public goods provision) functions and by implication, expenditure responsibilities, among the tiers of government in Nigeria

Table 1: Distribution of development responsibilities among federal, state and local governments

Level of Government	Development functions (expenditure responsibilities)
Federal Only	Defence
	Foreign affairs
	International trade including export marking
	Currency, banking, borrowing, exchange control
	Use of water resources
	Shipping, federal trunk roads
	Elections
	Aviation, railways, postal service
	Police and other security services
	Regulation of labour, interstate commerce, telecommunications immigration
	Mines and minerals, nuclear energy, citizenship and naturalization rights
	Social Security, insurance, national statistical system (Census births, death, etc)
	Guidelines and basis for minimum education
	Business registration
	Price control
Federal-State (Shared)	Health, Social welfare
	Education (post primary/technology)
	Culture
	Antiquities
	Monuments, archives
	Statistics, stamp duties
	Commerce, industry
	Electricity (generation, transmission, distribution)
	Research surveys
State only	Residual power, i.e. subject neither assigned to federal nor local government level
Local government	Economic planning and development
	Health services
	Land use
	Control and regulation of advertisements, pets, small businesses
	Markets, public conveniences
	Social welfare, sewage and refuse disposal, registration of births, death, Marriages
	Primary, adult and vocational education
	Development of agriculture and natural resources

Source: Nigerian Constitution 1999

2.3 Sharing of Revenue among the 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 can be 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%).

- Following the return to democratic goverment in 1999, the Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC) recommended the following formula to the National Assembly: 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.

Table 2 shows the trend in revenue allocation to the tiers of government.

Table 2: Vertical allocation of Nigerian government revenues

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	-
Current Bill under consideration at the National Assembly	53.69	31.10	15.21	-

**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.*

Compared to periods before return to democratic governance in 1999, state and local governments now control increased share of the federation revenue. During periods of military rule, revenue sharing was heavily distorted because of non-adherence to the constitutional imperatives of fiscal federalism. But, currently, state and local governments account for about 50% of consolidated public sector spending (NPC, 2004); and subnational governments have become increasingly significant in the overall national fiscal profile.

Data on government finances provided by CBN (2006) show that out of the ₦1621.0 billion distributed to the three tiers of government in the first half of 2006, the federal government received ₦772.6 billion (or 47.66%), state governments ₦538.0 billion (33.20%) and local governments ₦310.4 billion (or 19.14%). Central Bank of Nigeria Statutory revenue allocation to state governments from the Federation and VAT Pool Accounts in the first half of 2006 was higher by 10.6% compared to total receipts during the corresponding period of 2005 (CBN, 2006).

Increased states' share in consolidated public spending allows greater financial resources for state governments to promote social and economic development towards the MDGs and facilitate the growth and development of private enterprise. On the other hand, increased fiscal profile of the states underscores the challenge of fiscal decentralization and subnational fiscal autonomy for effective macroeconomic stabilization and coherent public finance management. The growing fiscal importance of Nigerian states implies that macroeconomic stability cannot be maintained without fiscal discipline in the states (Kwakwa, 2006). Fiscal choices and public expenditure efficiency at the state level have become critical for Nigeria's march to development targets under the MDGs . Since the Nigerian Constitution grants states full fiscal autonomy, it is difficult to control the intertemporal distribution of states and local governments' expenditure using monetary and fiscal policies. However, there are prospects of greater intergovernmental fiscal coordination through the application of the proposed Fiscal Responsibility Law. Such coordination is imperative for achieving national fiscal policy goals, macroeconomic stability and the MDGs.

3.0 SPENDING BEHAVIOUR OF STATES

3.1 Overall States' Finances 2001-2005

An overview of states' revenues and expenditures (2001-2005) reveals important features about the fiscal health and sustainability of state governments. These features are shown in Table 3.

Table 3: Summary of state governments' finances 2001 -2005

	As % of totals					
Fiscal Indicator	*2001*	*2002*	*2003*	*2004*	*2005*	Average (2001-2005)
Federation Account revenue as % of total revenue	78.29	65.83	70.30	78.41	71.03	72.77
IGR as % of total revenue	10.36	13.38	13.89	12.05	8.65	11.66
Other revenue as % of total revenue	11.35	20.79	15.81	9.55	20.32	15.57
Recurrent Expenditure as % of total expenditure	55.61	59.94	62.73	57.42	60.52	59.24
Capital Expenditure as % of total expenditure	44.39	40.06	37.27	42.58	39.48	40.76
Overall Deficit as % of total revenue	4.08	8.17	7.74	1.00	4.15	5.03

Source: Derived from data contained in Central Bank of Nigeria Annual Report and Statement of Accounts for the Year Ended 31st December 2005.

On the average, the thirty six state governments together obtained about 73% of their annual revenues from the Federation Account, from 2001-2005. Average annual internally generated revenue was only about 12% of total revenue during 2001-2005. As shown in Table 3 also, average annual recurrent expenditure was about 59% of total expenditure. All the state governments put together recorded an average annual deficit of about 5% during the period 2001-2005.

An overview of the finances of local governments (pooled) also reveals instructive features with implications for development functions of subnational levels of government. Table 4 gives the summary of local government finances, from 2001-2005.

Table 4: Summary of local governments' finances (2001-2005)

Fiscal Indicator	As % of totals					
	2001	*2002*	*2003*	*2004*	*2005*	Average (2001-2005)
Federation account revenue as % of Gross revenue	86.64	85.75	89.43	90.04	91.10	88.59
IGR as % of Gross revenue	3.51	6.05	5.45	4.78	4.00	4.76
Others as % of Gross revenue	9.85	8.19	5.12	5.18	4.91	6.65
Recurrent expenditure share of total expenditure	71.61	73.43	58.50	64.13	66.31	66.79
Capital expenditure share of total expenditure	28.39	26.57	41.50	35.87	33.69	33.21
Overall deficit share of gross revenue	0.09	1.35	2.27	1.55	0.45	1.14

Source: Derived from data contained in Central Bank of Nigeria Annual Report and Statement of Accounts for the Year Ended 31st December 2005.

Local governments are relatively more heavily dependent on federation account revenues. Internally generated revenue was only about 5% of average annual revenues from 2001-2005. Local governments put together devoted about two-thirds of average annual expenditure to recurrent items, leaving only about one-third for capital spending. Further knowledge is needed about the extent to which the predominant recurrent expenditure at the local level translates to better delivery of basic services including education, primary health, sanitation and others.

3.2 Spending Behaviour of Nigerian States

3.2.1 Overall State Governments' Expenditures on Sectors

It is important to have an overall picture of states' public spending on the different sectors. Based on the functional classification adopted by the Central Bank of Nigeria, three broad sectors are identified. They are administration, economic services and social services. Administration includes general administration, state legislature and judiciary. Economic services comprise agriculture, livestock, forestry, industry, commerce, finance, transport, cooperative/supply and rural electrification. Social services include education, health, water supply, information and culture, social and community development, housing, town and country planning (CBN, 2005).

Table 5 shows the pooled spending behaviour of Nigerian states, from 2001-2005.

Table 5: Classification of state governments' pooled recurrent and capital expenditure into broad sector categories (2001- 2005)

Type of Expenditure	As % of Totals						
	Sector Category	*2001*	*2002*	*2003*	*2004*	*2005*	Average (2001-2005)
Recurrent Expenditure	Administration	20.79	24.26	21.31	30.69	30.69	25.55
	Economic Services	18.71	14.29	11.73	14.46	14.46	14.73
	Social Services	55.01	38.28	39.94	37.50	37.50	41.65
Capital Expenditure	Administration	13.70	12.19	11.28	18.18	18.18	14.70
	Economic Services	35.68	33.99	37.71	44.32	44.32	39.21
	Social Services	33.38	36.63	34.39	34.27	34.27	34.59

Source: Derived from data contained in Central Bank of Nigeria Annual Report and Statement of Accounts for the Year Ended 31st December 2005.

It is important to observe that, from 2001-2005, average annual share of social services in recurrent and capital expenditures of the thirty six states (pooled) were about 42% and 35% respectively. Economic services got the highest single average annual share of capital spending by all the states, followed by social services in the same period. The bulk of expenditure on government administration was on recurrent items, incuding personnel, goods and services, overheads, etc, thereby indicating the nature and extent of fiscal burden posed by the size of government. Overall, the sectoral structure of public capital spending of the states from 2001-2005 appeared aligned to progress towards the MDGs. However, further research is needed to assess the extent to which states' public spending pattern has translated into concrete results and outcomes.

Deeper analysis of the content of states' public spending on economic and social services provides greater insights on the priorities of the states. The results of the computations regarding detailed recurrent expenditure are given in Table 6.

Table 6: Classification of pooled state governments' recurrent expenditure into sector subgroups

Sector Subgroups	As % of total					
	2001	*2002*	*2003*	*2004*	*2005*	Average (2001-2005)
Agriculture, livestock and forestry	4.54	3.40	3.53	3.34	3.34	3.63
Industry and commerce	5.12	0.70	0.74	0.67	0.67	1.58
Transport and rural electrification	3.20	1.92	1.69	3.10	3.10	2.60
Finance	3.58	6.54	4.45	3.45	3.45	4.29
Education	6.80	13.12	15.36	14.17	14.17	12.72
Health	2.66	6.20	6.73	8.26	8.26	6.42
Water Supply	0.00	1.30	1.18	3.32	3.32	1.82
Housing	0.00	0.97	0.93	0.99	0.99	0.78
Town and country planning	0.00	0.66	0.91	0.59	0.59	0.55

Source: Derived from data contained in Central Bank of Nigeria Annual Report and Statement of Accounts for the Year Ended 31st December 2005.

It is observed that education constitutes the largest single share of total recurrent expenditures of all state governments from 2001-2005, followed by health and then finance. On the other hand, the results of computations regarding detailed capital expenditure are given in Table 7.

Table 7: Classification of pooled state governments' capital expenditure into sector subgroups

Sector Subgroup	As % of total					
	2001	*2002*	*2003*	*2004*	*2005*	Average (2001-2005)
Agriculture, livestock and forestry	2.91	2.84	3.57	5.91	5.91	4.23
Industry and commerce	11.67	3.82	1.80	4.08	4.08	5.09
Transport and rural electrification	18.52	21.98	19.61	23.17	23.17	21.29
Finance	0.45	0.80	3.59	0.82	0.82	1.29
Education	6.71	5.68	5.51	8.69	8.69	7.05
Health	3.13	3.09	4.79	5.13	5.13	4.25
Water Supply	0.00	4.53	4.16	3.95	3.95	3.32
Housing	0.00	3.58	2.67	4.98	4.98	3.24
Tow n and country planning	0.00	4.40	2.62	3.49	3.49	2.80

Source: Derived from data contained in Central Bank of Nigeria Annual Report and Statement of Accounts for the Year Ended 31st December 2005.

Table 7 shows that transport and rural electrification constitutes the largest single share of total capital spending by all state governments, from 2001-2005, followed by education and industry and commerce and then health. The expenditure pattern portrayed by the results is potentially consistent with the development priorities and policy goals of SEEDS and NEEDS. Caution should however be exercised in interpreting the results, since the amount of funds spent represents mere budget inputs and not outcomes or impact. More detailed analysis will be required to understand the social and economic impact of public spending at the federal, state and local governments.

3.2.2 Comparative sector expenditure estimates across the states

For the purposes of comparing states on sector expenditure estimates, the sectors are categorized into three functional areas, namely economic, social including environmental and government administration. Economic sector includes agriculture, industries, infrastructure, financial/community and cooperatives. Social (including environmental) sector comprises education, health, information, social development and community development, as well as water and sanitation, housing, urban and regional planning and rural development. Government administration includes the three arms of government - executive, legislature and judiciary.

The distribution of public expenditure on social, economic and government administration across states is given in Table 8 as follows.

Table 8: Sector shares in public expenditure estimates across states, 2001-2005

States*	% of average annual allocation to sectors		
	Economic	Administration	Social and Environment
ABIA	26.62	24.67	48.71
ADAMAWA	32.79	30.04	37.17
AKWA IBOM	32.04	32.04	35.92
ANAMBRA	43.82	0.00	56.18
BAUCHI	45.79	12.80	41.41
BENUE	44.24	10.86	44.89
BORNO	26.49	5.37	68.14
DELTA	29.32	30.62	40.06
EBONYI	72.17	12.80	15.03
EDO	30.14	30.14	39.72
EKITI	35.05	35.05	29.90
ENUGU	29.63	30.07	40.30
GOMBE	26.38	35.85	37.77
IMO	27.81	25.62	46.57
JIGAWA	31.86	34.03	34.11
KADUNA	33.05	29.53	37.42
KANO	28.66	34.50	36.85
KASTINA	32.13	19.33	48.54
KEBBI	34.86	30.03	35.11
KWARA	19.78	14.61	65.61
LAGOS	35.17	18.72	46.11
NASSARAWA	26.88	10.81	62.32
NIGER	36.53	18.83	44.65
OGUN	42.77	14.88	42.35
OSUN	24.55	26.39	49.07
OYO	25.28	20.18	54.54
RIVERS	42.57	31.91	25.52
SOKOTO	28.33	23.53	48.14
TARABA	21.89	18.93	59.17
YOBE	32.59	23.68	43.73

Source: Derived from state budgets 2001-2005

** These are the states for which data was available*

The allocations can be further illustrated by Figure 1, as follows.

Figure 1: Sector shares in public expenditure estimates across states, 2001-2005

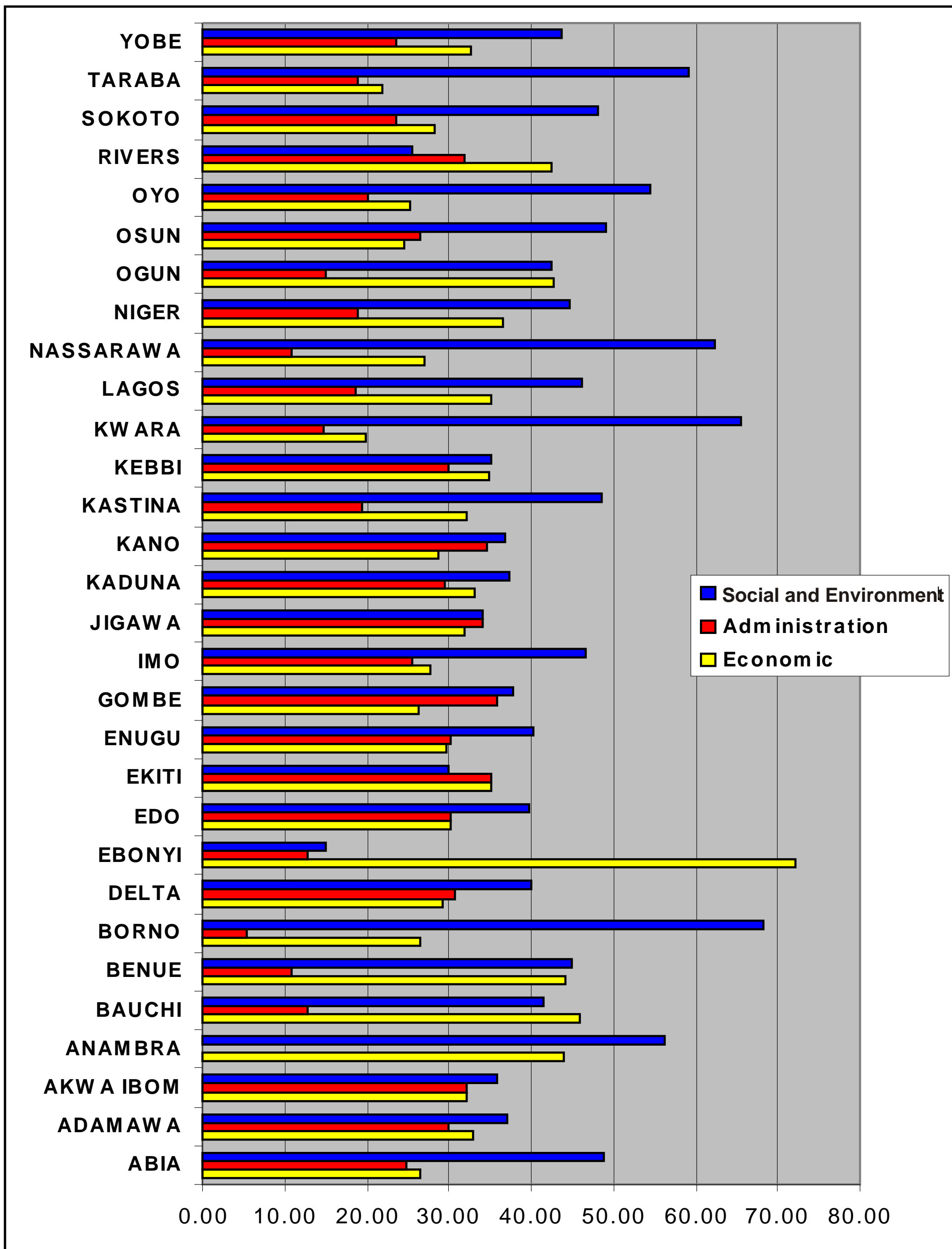


Table 9: High and low performing states in average annual sector allocation of public expenditure

State having	Social and Environmental	Economic	Administration
Highest expenditure share	Borno	Ebonyi	Gombe
Lowest expenditure share	Ebonyi	Kwara	Borno

Source: Derived from state budgets 2001-2005

3.2.3 Recurrent and capital expenditure estimates across the states

Recurrent expenditure share of total expenditures is an important indicator of what states are spending on, which in turn, largely influences the developmental orientation and fiscal health of the state. Recurrent expenditure covers personnel costs and overheads of government ministries, departments and agencies (MDAs), legislature and judiciary. On the other hand, capital expenditures are used to finance development-enhancing public goods and services, through infrastructure and related projects and programmes in education, health, industry, agriculture, water and power.

The relative shares of recurrent and capital expenditure estimates in total budget estimates across the states are given in Figure 2.

Figure 2: Average annual Capital and Recurrent Expenditure across the states, 2001-2005 (%)

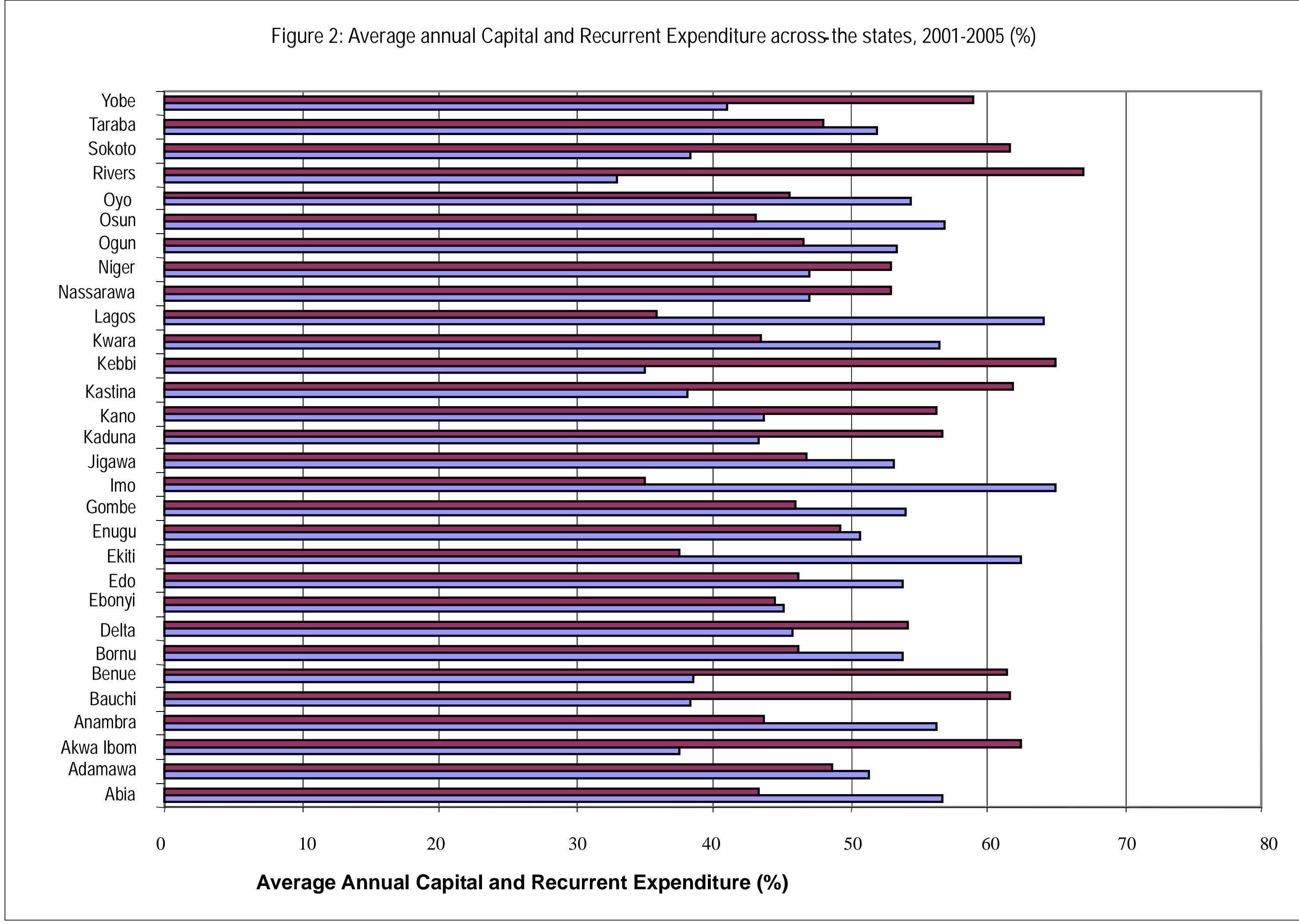


Figure 2 shows a predominance of recurrent over capital expenditure estimates across the states during 2001-2005. It is observed that during 2001-2005, Rivers State had the highest budget share of capital estimates (or lowest budget share of recurrent expenditure estimates). On the other hand, Imo State had the lowest budget share of capital estimates (or highest budget share of recurrent expenditure provisions). It is instructive to note that under NEEDS, the ratio of recurrent to capital expenditure at the state level is targeted at 60:40 in 2007 (NPC, 2004).

3.2.4 Variation between Budgeted and Actual Expenditure

The budget is a tool of financial planning. If underlying assumptions, actual revenue and expenditure significantly deviate from estimates, the budget loses its value as an economic forecasting mechanism. The disparity between total budgeted spending and actual expenditure (budget out-turn) is an indicator of whether the budget is an effective tool for fiscal discipline. If the actual expenditure (budget out-turn) surpasses the budget, leading to budget deficit, it gives the impression that the public financial management system is not bringing about effective fiscal discipline or that the public finance system is unable to respond to changes in the economic and fiscal environment. On the hand, where the expenditure is significantly lower than the revenue, it can be interpreted that the budget was based on unrealistic assumptions and that it was never a reliable basis of public financial management by the state government (NPC, 2005).

The SEEDS benchmarking exercise of 2005 found that in most states, budgets did not provide reliable guide to actual spending. It was found that there existed huge disparities between actual and budgeted expenditure, both at ministry level and in aggregate. The international benchmark used was variations of 5% or less between budgeted and actual expenditure, that is, budget performance of at least 95%. Evidence across the states indicate high incidence of budget variations up to 20% and more. Some of the variations reflect unsound revenue projections by the states, particularly concerning internally generated revenue (IGR). Few states made convincing projections for internally-generated revenue in their 2005 budgets and less than half made convincing projections for federal allocations (NPC, 2006). Also, the variations between budget and actual spending reflect poor application of the budget as the barometer for public spending.

Analysis of variations between budgeted amounts and actual expenditures in some states is shown in Table 10.

Table 10: Budget variations in selected states across Nigeria

Budget deviations across Nigerian States 2001-2004 (Nominal million naira)

States	2001*				2002**				2003				*2004				Average Budget deviation			
	Budget	Actual	Budget Deviation		Budget	Actual	Budget Deviation		Budget	Actual	Budget Deviation		Budget	Actual	Budget Deviation		Budget	Actual	Budget Deviation	
			Amount	%			Amount	%			Amount	%			Amount	%			Amount	%
Edo	10704.9	3768.12	-6936.8	-184	19305.4	12334.5	-6970.87	-56.52	19176.53	14848.35	-4328.2	-29.15	20142.92	15805.9	-4337.02	-27.44	17,332.43	11,689.22	-5643.2	-74.3
Cross River	15994	16,369.13	375.18	2.29	19288.5	12414	-6874.44	-55.38	24,927.53	13,014.49	-11913	-91.54	39,380.22	33,282.38	-6097.84	-18.32	24,897.54	18,770.01	-6127.5	-40.74
Gombe											0	0	23,782.30	15,668.03	-8114.27	-51.79	5,945.58	3,917.01	-2028.6	-61.79
Katsina	16682.9	8,954.13	-7728.8	-86.3	19,430.74	9054.01	-10376.7	-114.6	19430.74	14188.56	-5242.2	-36.95	22762.22	10,022.12	-12740.1	-127.1	19,576.65	10,554.71	-9022	-91.25
Kebbi	10533.8	7,296.59	-3237.2	-44.4	8,928.95	3,624.93	-5304.02	-146.3	21,653.83	8,833.85	-12820	-145.12	37,924.92	14,738.26	-23186.7	-157.3	19,760.38	8,623.41	-11137	-123.28
Nassarawa	9824.28	7815.36	-2008.9	-25.7	11,088.30	10,515.97	-572.33	-5.44	16,457.79	13,048.54	-3409.3	-26.13	23,069.01	106,490.42	83421.41	78.34	15,109.85	34,467.57	21956.9	5.27
Ondo		1,004.06				1,140.06			1,332.24	483.69	-848.55	-175.43			0		333.06	656.95	-212.14	-175.430

*budget deviation is actual expenditure less estimated expenditure

Source: Computed from States budget documents and Governors' budget speech29

As shown in Table 10, the average annual variation between budgeted and actual expenditures from 2001-2004 was very high in Edo, Gombe, Katsina, Kebbi and Ondo; it was comparatively low in Cross River and Nassarawa. Efforts to minimize disparity between total budgeted expenditures and actual expenditures would increase the credibility and public confidence in state governments' budgets as a veritable tool of economic management, resource allocation and financial planning.

4.0 REVENUE PATTERNS ACROSS STATES

States obtain revenue from many sources, namely the Federation Account, internally generated revenue (IGR) and loans and grants from internal or external institutions.

4.1 Sources of Revenue

Fiscal health of the state can be measured by the share of internally (locally) generated revenue in total revenue or expenditure. It is synonymous with a well-known measure of fiscal autonomy (UNDP, 1993) ratio of locally generated revenues to local expenditures (Jimoh, 2003).

4.1.1 Tax Types and Jurisdictions across the Tiers of Government

Locally generated revenues are determined first and foremost by tax jurisdictions assigned to the three levels of government. In every society, tax jurisdictions define the source of power to collect the tax (tax law) and who has the duty to collect the tax (tax administration/collection) and who has the right to the tax revenue. In principle, revenue collection powers should be shared between the different tiers of government in a manner that ensures that revenue collection powers are closely aligned with expenditure functions (Tanzi, 1995). The balance of centralization/decentralization of revenue jurisdictions is the key distinguishing feature of federal states. On the one hand, centralized collection of revenues promotes efficiency in the central government's performance of distribution, stabilization and the provision of national public goods functions and hence promote substantial economies of scale in tax administration. On the other hand, decentralized collection ensures efficiency in the provision of public goods, promotes accountability and responsibility and enhances fiscal autonomy of lower tiers of government (Tanzi, 1995).

Table 11 gives the picture of the tax space of the three tiers of government in Nigeria as follows.

Table 11: Taxes collectible by the three tiers of government

Level of Government	Taxes and Levies to be Collected
Federal Government	Companies income tax
	Withholding tax on companies, residents of the Federal Capital Territory, Abuja and non-resident individuals
	Petroleum profits tax
	Value added tax
	Education tax
	Capital gains tax on residents of the Federal Capital Territory, Abuja, bodies corporate and non-residential individuals
	Stamp duties on bodies corporate and residents of the Federal Capital Territory Abuja
	Personal income tax in respect of: (i) members of the Armed Forces of the Federal; (ii) members of the Nigeria Police Force; (iii) Residents of the Federal Capital Territory, Abuja; and (iv) Staff of the Ministry of Foreign Affairs and Non-resident individuals
State Government	Personal Income Tax in respect of: (i) Pay-As-You-Earn (PAYE); and (ii) Direct taxation (Self Assessment)
	Withholding tax (individuals only)
	Capital gains tax (individuals only)
	Stamp duties on instruments executed by individuals
	Pools betting and lotteries, gaming and casino taxes
	Road taxes
	Business premises registration fee in respect of (a) urban areas as defined by each State, maximum of (i) N10,000 for registration, and (ii) N5,000 per annum for renewal of registration; and (b) rural areas: (i) N2,000 for registration, and (ii) N1,000 per annum for renewal of registration
	Development levy (individuals only) not more than N100 per annum on all taxable individuals
	Naming of street registration fees in the State Capital
	Right of Occupancy fees on lands owned by the State Government in urban areas of the State
	Market taxes and levies where State Finance is involved
Local Government	Shops and kiosks rates
	Tenement rates
	On and Off Liquor Licence fees
	Slaughter slab fees
	Marriage, birth and death registration fees
	Naming of street registration fee, excluding any street in the State Capital
	Right of Occupancy fees on lands in rural areas, excluding those collected by the Federal and State Governments
	Market taxes and levies excluding any market where State finance is involved
	Motor park levies
	Domestic animal licence fees
	Bicycle, truck, canoe, wheelbarrow and cart fees, other that a mechanically propelled truck
	Cattle tax payable by cattle farmers only
	Merriment and road closure levy
	Radio and television licence fee (other than radio and television transmitter)
	Vehicle radio licence fees (to be imposed by the Local Government of the State in which the car is registered)
	Wrong parking charges
	Public convenience, sewage and refuse disposal fees
	Customary burial ground permit fees
	Religious places establishment permit fees
	Signboard and advertisement permit fees

Source: Taxes and Levies (Approved List for Collection) Decree 1998 Decree No. 215.2

4.2 Revenue Trends across the Tiers of Government

It is estimated that about 93.3% of the total Nigerian government revenues are provided by the federal government. This implies that state and local government areas put together provide less than 7% of Nigerian government revenues (Jimoh, 2003). This revenue structure is a direct result of the nature of assigned revenue and tax jurisdictions across the tiers of government. It has serious implications for the fiscal autonomy of state and local governments. However, state and local governments have access to federally collected revenue, through the Federation Account.

From 1960-1999, an average of about 70% of the federally collected revenues was allocated to the Federal Government. Similarly, from 1980-1999, an average of about 61% of total Nigerian Government revenues was allocated to the Federal Government (Jimoh, 2003). The Federal Government retained revenue for the first half of 2006 was ₦772.6 billion; higher by 8.2% than the level in corresponding period of 2005 (CBN, 2006).

However, since the return to democratic rule in 1999, states have had increased access to national revenues. Statutory revenue allocation to state governments from the Federation and VAT Pool Accounts in the first half of 2006 increased by 10.6% over the total receipts in the corresponding period of 2005 (CBN, 2006). Annual growth of state governments' receipts from the federation account increased from 3.91% from 2001-2002 to 45.2% from 2003-2004. In the same vein, annual growth of state government's expenditures rose from 21.4% in 2001-2002 to 31.4% in 2004-2005 (CBN, 2005). On the other hand, from 2001-2005, revenues received by all state governments increased by an average annual rate of 25.52%, compared to the average annual rate of increase of 21.91% recorded by the federal government. During the same period (2001-2005), state governments' expenditures increased by average annual rate of about 25% compared to 16.12% recorded by the federal government (CBN, 2005).

Despite increased share of state governments' in federation account, the federal government still dominates access to national revenues, on account of the prevailing revenue allocation formula.

4.3 Internally Generated Revenue (IGR) across States

Internally generated revenue share of total revenue is an indicator of fiscal strength of the state. Results of the analysis of internally generated revenue are given in Table 12.

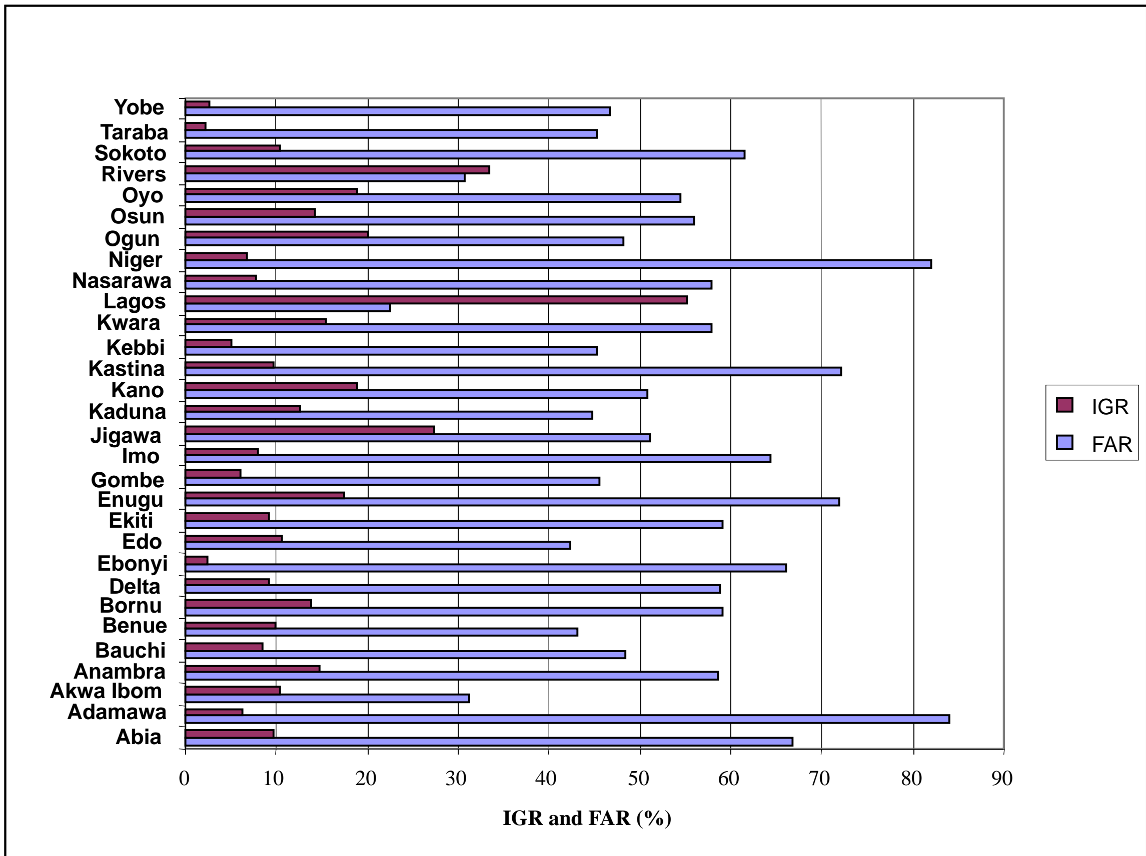
Table 12: Performance of states on revenue, recurrent expenditure and loans, 2001-2005

State	Revenue by source, 2001-2005				LOAN/IGR	Weight*
	Average Annual (%)					
	FAR	IGR	Recurrent Expenditure	IGR/Recurrent Expenditure		
Abia	66.67	9.59	56.61	0.17	0.8	5
Adamawa	84.02	6.34	51.42	0.12	0	5
Akwa Ibom	31.26	10.30	37.53	0.27	3.4	4
Anambra	58.45	14.81	56.37	0.26	0.7	3
Bauchi	48.42	8.48	38.35	0.22	1.5	4
Benue	43.17	9.84	38.47	0.26	2.9	3
Bornu	59.12	13.91	53.88	0.26	0.3	3
Delta	58.80	9.10	45.79	0.2	1.4	5
Ebonyi	66.14	2.38	45.18	0.05	1.8	5
Edo	42.38	10.56	53.76	0.2	1.4	5
EkitI	59.13	9.20	62.54	0.15	0	4
Enugu	71.88	17.52	50.78	0.35	0	5
Gombe	45.39	5.96	54.05	0.11	2.1	2
Imo	64.32%	8.08	65.00	0.12	1.8	3
Jigawa	51.01	27.39	53.11	0.52	0.7	3
Kaduna	44.70	12.52	43.22	0.29	2	5
Kano	50.75	18.90	43.67	0.43	0.3	5
Kastina	72.15	9.69	38.24	0.25	0	5
Kebbi	45.26	5.07	34.97	0.14	4.1	5
Kwara	57.74	15.44	56.40	0.27	1.2	5
Lagos	22.57	55.12	64.06	0.86	0	2
Nassarawa	57.75	7.86	46.98	0.17	0.7	5
Niger	81.94	6.76	46.97	0.14	0	4
Ogun	48.23	20.06	53.39	0.38	0.5	5
Osun	55.95	14.39	56.92	0.26	0.5	4
Oyo	54.47	18.92	54.48	0.35	0.6	5
Rivers	30.78	33.34	33.02	1.01	0	4
Sokoto	61.46	10.29	38.34	0.27	0.6	5
Taraba	45.33	2.09	51.90	0.04	5.9	2
Yobe	46.80	2.62	41.10	0.06	5.6	3

** Number of years for which data was available; Source: Computed from state budget estimates*

The results can be further illustrated by Figure 3, as follows.

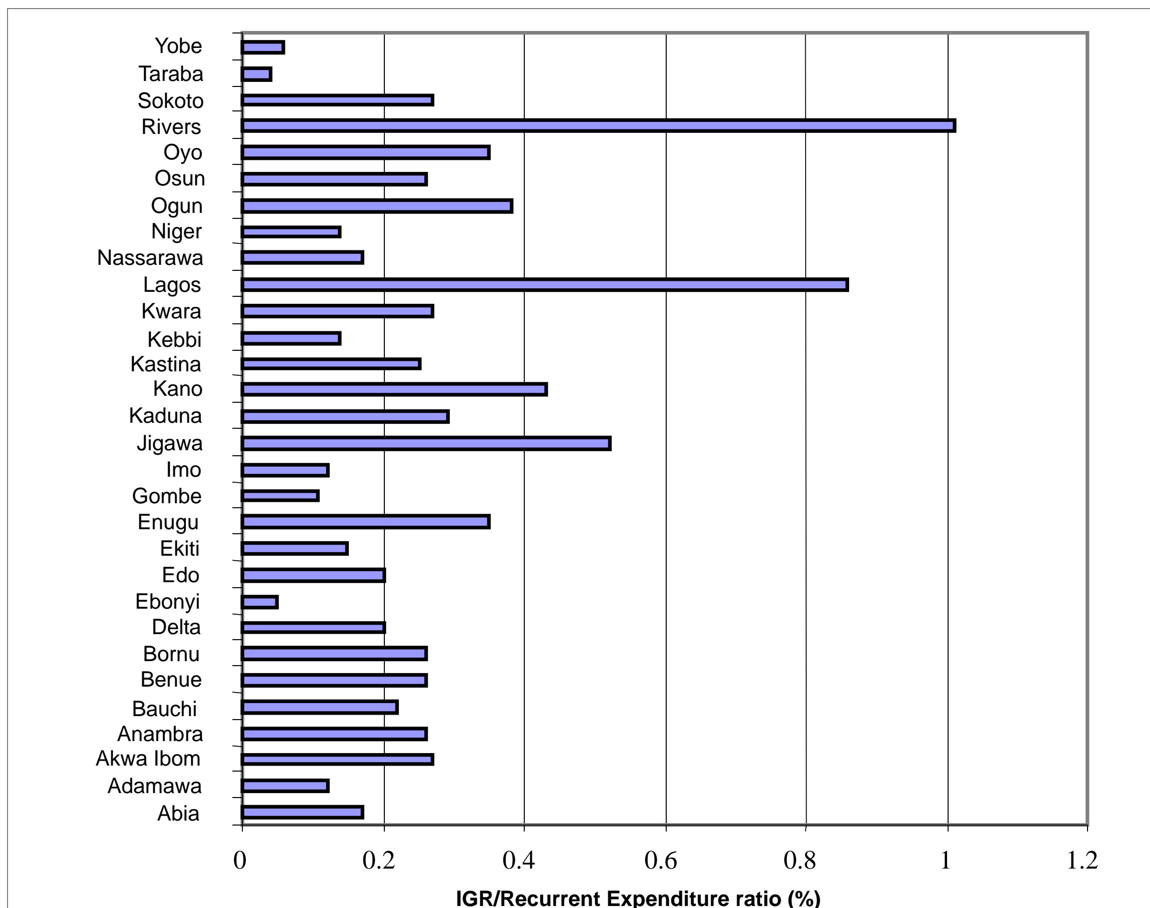
Figure 3: Average annual IGR and FAR across the states, 2001-2005 (%)



As shown by Table 12 and Fig 3, the states which recorded IGR less than 5% of total revenue are Yobe, Taraba and Ebonyi, whereas Lagos and Rivers States have the highest IGR shares of about 55% and 33% respectively. It is therefore obvious that the states depend heavily on grants from the federal government, thereby predisposing them to risks from the volatility of the international oil market.

Another handy measure of the fiscal soundness of the states is the ratio of internally generated revenue to recurrent expenditure. This indicator mirrors the carrying capacity of the state finances as shown in Figure 4.

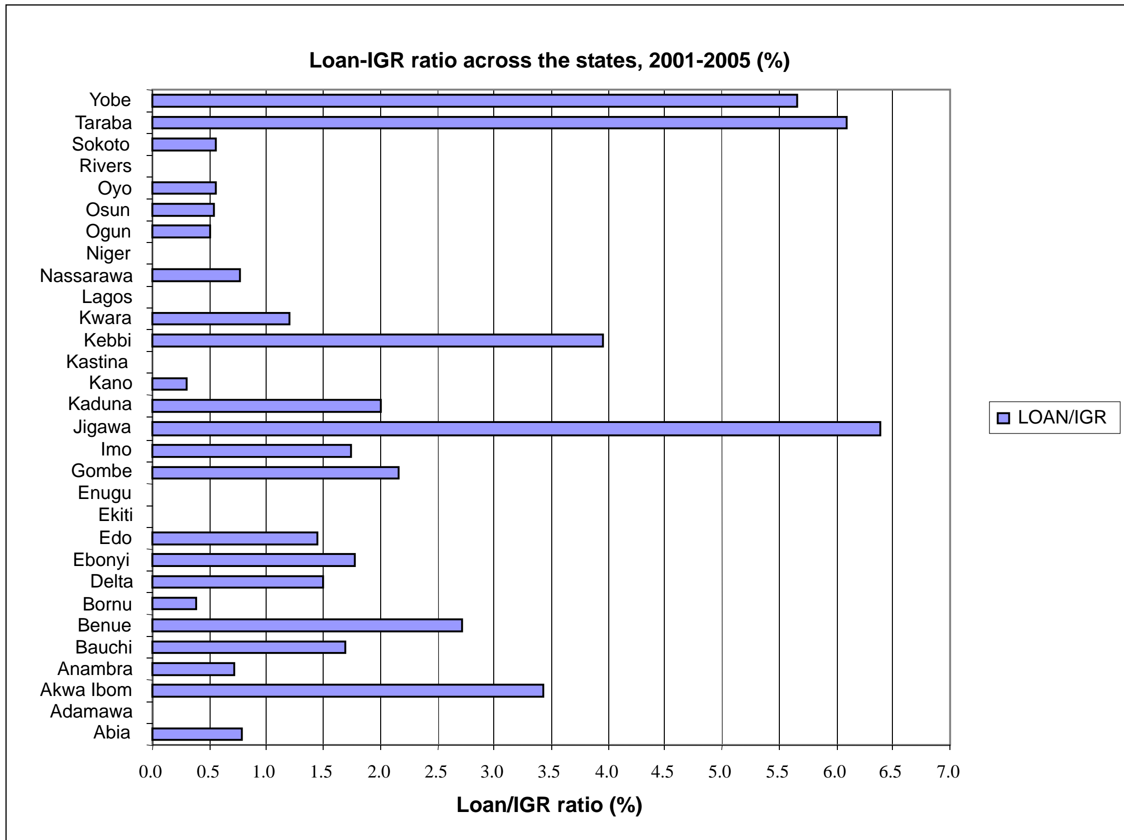
Figure 4: IGR to recurrent expenditure ratio across the states, 2001-2005 (%)



As shown in Figure 4, states have very low carrying capacity in terms of relative strengths of IGR and recurrent expenditure. For example, in many states, less than 0.2% of recurrent expenditure is financed by IGR. Only Lagos and Rivers states financed more than 50% of recurrent expenditure from IGR. The situation underscores the fiscal vulnerability of the states to shocks from federally collected revenues.

Moreover, the fiscal burden of the states can be assessed based on the loan to IGR ratio. Many states have high loan to IGR ratio, signifying poor loan carrying capacity of state fiscal position. Figure 5 shows the comparative picture of states on loan to IGR ratio.

Figure 5: Loan to IGR ratio across the states, 2001-2005 (%)



It is observed from Figure 5 that states with the highest loan burden relative to IGR are Yobe, Taraba, Kebbi, Jigawa and Akwa Ibom, while the states with zero loan burden relative to IGR include Ekiti, Lagos, Adamawa, Katsina, Rivers and Niger.

5.0 BUDGET AND FISCAL MANAGEMENT ACROSS STATES

Underlying the performance of quantitative allocations of budget and public spending by the states is the quality of budget and fiscal management. The same level of public spending can produce different outcomes, depending on the efficiency and effectiveness of the spending institutions. It is therefore crucial to question the budget process and its features including transparency, openness, predictability, credibility, participation, public scrutiny, discipline, accountability and coordination. The goal of a public financial management system is to support the achievement of aggregate fiscal discipline, strategic allocation of funds, value for money and probity in the use of public funds (NPC, 2005).

5.1 Critical Budget and Pubic Spending Decisions

All governments face a wide range of competing demands on the limited resources available to them. Therefore, governments at all levels should be able to devise the best spending options for the maximization of social welfare. Sound analysis of spending options including public expenditure reviews, benefits incidence analysis, poverty and social impact analysis (PSIA), entails substantial information and data on programs and services. World Bank (2002) gives three interrelated tasks in assessing public spending options. They include to:

- determine the rationale for public interventions;
- decide on an appropriate instrument or channel to offset market failures or improve distributive outcomes; and
- assess expenditure options.

Often, establishing the rationale for public intervention is misconstrued to mean that government itself can best respond by providing a good or service. Lack of appropriate responses by the government can lead to government failure, just as there is market failure. Sometimes, it may be expedient to use a mix of public and private delivery mechanisms, or for regulation, public financing of subsidies and user charges (World Bank 2002). Where there is established basis for government to directly provide certain important goods and services, the consequent decision problem would be the best way to provide them.

5.2 Recent Evidence on Budget and Fiscal Management in the States

Against the need to stimulate best practices in budget and fiscal management at the state level, the SEEDS benchmarking exercise in 2005 assessed states on a number of critical requirements for open and orderly public financial system (NPC, 2005). They include:

- Budget realism the budget is realistic and implemented in a predictable manner;
- Comprehensive, policy-based budget the budget captures relevant fiscal transactions, and is prepared with due regard to policy, as set out in subsisting policy documents;
- Fiscal management aggregate fiscal position and risk are monitored and managed;
- Information adequate fiscal, revenue and expenditure and accounting records and information are produced, maintained and disseminated to meet decision-making, control, management and reporting purposes;
- Control arrangements are in place for the exercise of control and stewardship in the use of public funds; and
- Accountability and transparency arrangements for external transparency and scrutiny of public finances are operating.

Based on these objectives, the results obtained are summarized in Table 13.

Table 13: States' performance on capacity and commitment indicators of budget and fiscal management*

Indicator of performance	**States performing**		
	Above Average	Average	Below Average
Capacity for budget and fiscal management	None	Bauchi, Benue, Cross River, Ekiti Enugu, Ondo, Yobe	Abia, Adamada, Akwa Ibom, Alambra, Borno, Delta, Ebonyi, Edo, FCT, Gombe, Imo, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Lagos, Nasarawa, Níger, Ogun, Osun, Oyo, Plateau, Rivers, Sokoto, Taraba, Zamfara
Commitment to budget and fiscal management	None	Alambra, Delta, Imo, Kaduna, Lagos, Ondo, Osun, Rivers, Delta, Imo, Kaduna, Lagos, Ondo, Osun, Rivers	Abia, Adamawa, Akwaibom, Bauchi, Benue, Borno, Cross River, Ebonyi, Edo, Ekiti, Enugu, FCT, Gombe, Jigawa, Kano, Katsina, Kebbi, Kogi, Kwara, Nasarawa, Níger, Ogun, Oyo, Plateau, Sokoto, Taraba, Yobe, Zamfara

**A fuller picture of states' performance on budget and fiscal management would be obtained through follow-up assessments in subsequent years.*

Source: NPC (2006). Results of SEEDS Benchmarking 2005. Abuja: National Planning Commission

Against this backdrop, BECANS will assess public spending on education, health and other public goods. The assessment covers per capita expenditures on health, education and critical utilities in the various states. The assessment will also elicit independent views about state's performance in health, education, sanitation, water supply and other critical public utilities provided by state governments.

Low overall performance of states in budget and fiscal management underscores the need for capacity building. Capacity building and institutions strengthening are imperative to improve the budget process for greater transparency, accountability and outcome-based resource planning. The state legislatures require greater capacity to hold the executive arm of government more accountable. Civil society organizations in the various states need to be strengthened, through institutions building and evidence-based systems, to participate more proactively and effectively in budget formulation, monitoring, feedback and evaluation.

State governments should be supported to adopt and internalize public finance reforms already applied by the federal government. Such reforms include the adoption of fiscal strategy, medium-term expenditure framework (MTEF), tax reforms and public procurement (Due Process). Others are the measures on budget transparency and monitoring, public expenditure management codes and fiscal responsibility reforms.

6.0 CONCLUSION AND IMPLICATIONS

Most states have unhealthy fiscal conditions. One principal source of the fiscal fragility and vulnerability is the heavy reliance on Federation Account revenue, which in turn, is hinged upon volatile oil revenues. Poor economic governance and inappropriate policy choices also contribute to the volatility problem. For example, domestic resource mobilization (locally generated revenue) is generally poor due to inadequate and inefficient tax administration, coupled with acutely low private sector capacity in many states.

States' public spending is crucial to Nigeria's overall fiscal sustainability, the creation of conducive business environment and progress on economic development indicators. States have expenditure responsibilities for critical public goods and services which affect living conditions and the environment for investment and business. The overall dominance of recurrent expenditure over capital expenditure reflects an unhealthy fiscal position in the states and a low orientation of the budget to promote sustained growth in employment and incomes. However, the functional distribution of capital budget estimates is generally aligned to economic and social services. While this trend appears favourable to Nigeria's achievement of the MDGs, it is not clear how and to what extent public spending leads to concrete effective results in human, social and economic development. Additional research is needed to find out whether and how budgets and public spending have translated to public goods and services and the extent to which they impact upon the investment climate in the states

There is a large scope for capacity strengthening of the budget, financial and procurement systems of state governments. This requires building capacity of state budget offices/departments, line ministries, state legislatures and civil society organizations. Also, it is imperative to establish sustainable framework for fiscal coordination among the three levels of government. States' budget and fiscal institutions need to be strengthened for the adoption of best practices in budget and fiscal management.

Examining budget and public expenditure across states is a key agenda of BECANS. This is because budget and public expenditure can make or mar the environment for business and investments. In this light, BECANS has a critical role in promoting appropriate budget and public finance practices and providing comparative evidence to inform stakeholder debates and advocacy for sound public expenditure and financial accountability at the state level. Regular performance measurement and dissemination of good budget and fiscal management practices across states will enhance information sharing, mutual learning and pressurize states to healthy competition for better budget and fiscal management.

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