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Exploring Fiscal Federalism and the Structure of Public Spending in Nigeria

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Abstract

Globally, there has been a noticeable shift towards fiscal decentralization during the last few decades. As a result, subnational levels of government now have more latitude for revenue generation and spending decisions. Nations all around the world are recognizing the benefits of fiscal decentralization. Fiscal federalism, as a component of fiscal decentralization, deals with the public sector's vertical organization. It examines the functions of the various governmental tiers and their interactions with one another through various fiscal mechanisms. The study aims to investigate the impact of Nigeria's fiscal federalism on public spending and the welfare of its citizens. The Wiseman-Peacock theory was adopted as the theoretical framework. The study was based on a documentary research design. Content analysis was used as a method for analyzing data. The derived findings revealed that Nigeria's revenue-to-GDP ratio is among the lowest in the world. It also established that revenue shortages have created imbalances in government expenditure, i.e., recurrent above capital expenditure. The study recommends that addressing loopholes in the current tax legal framework, allocating spending more efficiently, and strengthening institutions are approaches to be applied to put Nigeria on a sustainable fiscal path.

Keywords: Fiscal federalism, fiscal instruments, public revenue, public spending

Introduction

Globally, there has been a noticeable shift towards fiscal decentralization during the last few decades. As a result, subnational levels of government (state and local) now have more latitude for revenue generation and spending decisions. This pattern may be seen in many federal states as well as unitary nations, including some with a lengthy history of centralist governance. To enhance the alignment between the quantity, quality, and composition of publicly offered goods and services and the preferences of their recipients, as well as to enhance the responsiveness and accountability of political leaders to their constituents, this phenomenon partially signifies the political progression toward more democratic and participatory models of governance. A plethora of economists have long held the belief that decentralizing spending responsibilities can result in significant improvements in terms of efficiency and welfare (Tiebout, 1961; Musgrave, 1969; & Oates, 1972, quoted in Ter-Minassian, 1997). However, arguments in academic literature also posit that decentralization may come at a high cost for distributional equity and macroeconomic management (Prudhomme, 1995; Tanzi, 1996).

Nations around the globe are beginning to recognize the benefits of fiscal decentralization. Decentralization, when implemented correctly, gives citizens more say over decisions made by the government that impact their daily lives (Bird & Vaillancourt, 1998; Bird, Ebe, & Wallich, 1995; Litvack, Ahmad & Bird, 1998). Decentralization may increase public welfare even when it is mostly implemented for political purposes, such as appeasing separatist sentiments in some areas (Martinez-Vazquez, McLure & Vaillancourt, 2006). However, decentralization is not primarily aimed at reorganizing or restructuring the public sector. Almost every nation has multiple levels within its public sector. The fundamental objective of decentralization is to assign functions and fiscal instruments to the appropriate governmental levels (Arowolo, 2011; Akindele & Olaopa, 2002; Dang, 2013; Ring, 2000).

The federal systems were created to combine the advantages of both large and small countries (Alexis de Tocqueville, cited in Oates, 1999). However, to fully benefit from these "different advantages," it is necessary to recognize which government operations and tools are better suited for centralization and which belong more in the domain of decentralization. This is what fiscal federalism is all about. Fiscal federalism is a branch of public finance that deals with the public sector's vertical organization. It examines the functions of the various governmental tiers and their interactions with one another through mechanisms like intergovernmental grants, both normatively and constructively.

With the global popularity of fiscal federalism, nations now have considerable amounts of federal power over a variety of major programmes, such as welfare, health care, legal services, housing, and job training, throughout the developed global north. It is hoped that state and local governments, which are more in touch with the general public, will be more receptive to the unique preferences of their constituents and be able to come up with innovative solutions for delivering these services. Intending to escape the control of central planning, which many believe has failed to put these countries on a path of self-sustaining growth, countries in the emerging global south have demonstrated significant interest in fiscal decentralization (Oates, 1999). The study aims to explore Nigeria’s fiscal federalism and how it affects public spending, which is a primary determinant of public service delivery and citizens' welfare.

Conceptual Review

Fiscal Federalism

Fiscal federalism is the division or allocation of taxing and spending powers among the several tiers of government. Governments can better react to local preferences by bringing public services closer to households and businesses through decentralization (Boadway & Dougherty, 2019). The theory of fiscal federalism, initially conceptualized by Musgrave (1959) and Oates (1972), focuses on the logical allocation of public sector responsibilities and financial resources among multiple tiers of government (King 1984, as cited in Bird, n.d.). The emphasis here is on the requirement to improve the public sector's performance and service delivery by ensuring a proper alignment of fiscal instruments and responsibilities (Arowolo, 2011; Shah, Rajaraman, & Rezende, n.d.). In addition, the importance of intergovernmental fiscal relations and subnational governance is further amplified by globalization and changes in regional concentrations of economic activities (Boadway and Dougherty, 2019).

Public Revenue

The bulk of the government's revenue comes from its financial resources, which are derived from money created or raised in the economy (Obiechina, 2010). Public revenue refers to all receipts the government gets, including taxes, customs duties, social contributions, grants receivable, revenue from state-owned enterprises, capital revenues, and other revenues except loans and borrowing. It is different from public receipt in that the latter refers to government revenues and borrowing. This implies that, in addition to government revenue, public receipts consist of non-revenue aspects that increase government debt obligations (Ihimodu, 1995; Obiechina, 2010). Public revenues are part of government budget balance calculations. Revenue increases the government’s net worth, which is the difference between its assets and liabilities (International Monetary Fund [IMF], 2001).

Public Spending

Public spending, also known as government spending or government expenditure, refers to costs incurred by the government for its upkeep as well as the provision of public goods, services, and works required to support or promote economic growth and enhance the welfare of its citizens. Spending by the government (public) often consists of both capital and recurring expenses. The term "capital spending" refers to the sums spent on the purchase of fixed (productive) assets (whose useful lives extend beyond the accounting or fiscal year), as well as the sums spent on the upgrade and improvement of existing fixed assets, including intangible assets, like lands, buildings, roads, machines, and equipment. Recurrent spending, on the other hand, includes payments for operations, wages, and salaries, purchases of goods and services, as well as current grants and subsidies (which are typically categorized as transfer payments) (Agu, Okwo, Ugwunta, & Idike, 2015; Aigheyisi, 2013; Chenge, Oigbochie & Udoh, 2022; Darma, 2014; Edame & Akpan, 2013).

Review of Literature

Fiscal Federalism and the Assignment of Revenue-Raising Responsibility

In the literature on public finance, there is some agreement on several ideal standards to direct the distribution of revenue-raising duties among various governmental tiers. However, national experiences show a substantial amount of variation and do not always meet those standards. It is generally accepted that agreements that entrust subnational governments with all or most of the taxing powers, with revenue sharing increasing, are counter-productive from both a distributional point of view and, in particular, from a macroeconomic point of view, especially if the revenue sharing formulas are to be regularly renegotiated. The central government is deprived of tax tools for macroeconomic management as a result of these arrangements. Furthermore, neither across regions nor across income categories do they enable the central government budget to play a redistributive role. Consequently, upward revenue-sharing arrangements are only feasible in nations with a long history of closely coordinating policies across various levels of government and relatively uniform economic conditions throughout their regions, or in loose confederations, or common economic areas where member states continue to bear the primary responsibility for stabilization and redistribution policies (Ter-Minassian, 1997).

Moreover, to avoid any form of distortions in the allocation of resources, it becomes imperative to strive for a certain level of coordination between national tax policies within common economic zones. This is particularly crucial as divergences in tax bases and rates across different regions can potentially disrupt the smooth movement of goods and factors of production in an integrated economic framework. The European Union's experience exemplifies this, particularly since the single market's inception in 1993. Agreements that give the federal government the majority of its taxing authority are also undesirable. These arrangements blur the connection between the advantages of public expenditures and their cost—that is, the taxes imposed to pay for them—by severing the authority to spend money from the responsibility to raise revenue. Therefore, they don't encourage sub-national politicians and their supporters to be fiscally responsible (Emiliani, Lugaresi & Ruggiero, 1997; Ter-Minassian, 1997). To close any resulting gap between revenue and expenditure assignments, the option that is preferred in most literature and is also most commonly seen in nations worldwide calls for assigning each level of government its sources of revenue in conjunction with different kinds of intergovernmental transfers (Allain-Dupre, 2018; De Mello, 2000; Douherty, Harding & Reschovskky, 2019).

The forms of intergovernmental transfers and income assignments, however, differ greatly from one another. Some nations adhere to the idea that the tax bases for the various tiers of government should be kept completely separate. Others permit the use of the same tax base at several levels. India, Australia, and Germany are a few countries that have examples of tax separation in place for non-shared taxes. In contrast, there is a significant amount of tax overlap between the US and Canada. The literature generally agrees that taxes with specific attributes should be assigned to the central government. These attributes include:

- They are imposed on more mobile tax bases. This is essential to prevent tax competition from sharply reducing revenues and to prevent tax-induced transfers of factors of production.

- They have higher income elasticity, meaning they are more susceptible to fluctuations in income. This is done to give the central government instruments for stabilization and, to the greatest extent feasible, protect subnational governments' budgets from cyclical variations.
- They are imposed on tax bases not uniformly dispersed throughout the various areas.

These attributes would support the assignment of corporate income taxation (attributes 1 and 2) and natural resource taxation (attribute 3) to the federal government. However, given the potential effects that the exploitation of these resources may have on the surrounding ecosystem, a strong case may be made for the federal and relevant sub-national governments to share the tax base. Additionally, most people agree that the federal government ought to be in charge of collecting taxes on international trade (Ter-Minassian,1997).

Fiscal Federalism and Assignment of Expenditure Responsibilities

There is little evidence from economic theory to guide the division of expenditure among the various governmental tiers. Essentially, the benefit principle says that the government that provides the service should be the one that best represents the community that will benefit from it. For instance, local public goods like municipal services frequently solely benefit residents of a particular city or township; in these situations, decentralization to the municipal level is both desirable and practical to improve administrative and allocative efficiency. On the other hand, centralized policy and administration are necessary for national public goods like redistribution, macroeconomic stability, and national security (Ahmad, Hweitt & Ruggiero, 1997; Dougherty & Philips, 2019).

The majority of goods provided by the government, however, do not neatly fit into either of these two categories. Decentralization and centralized policy coordination are both feasible and desirable options for these mixed goods, which offer distinct benefits, externalities, and potentially national redistributive impacts. For example, there are certain efficiency benefits to providing primary education and preventive healthcare locally, such as the potential for improved quality due to local oversight and the freedom for communities to choose their own treatments and cultural practices. The prevalence of economies of scale and externalities—benefits that flow to several jurisdictions—for hospitals and postsecondary education suggests that more centralized authority may be necessary. Nonetheless, the requirement for minimal standards frequently necessitates centralized policy decision-making for each of these services. When conflicting goals arise, determining which level should bear the burden of spending can be a difficult process that is prone to normative bias (Ahmed et al., 1997).

The multifaceted nature of centralization-decentralization poses a challenge to the examination of spending assignments. Determining which level of government should be in charge of formulating, funding, and implementing policies is known as expenditure assignment. Several combinations can occur. Through intergovernmental grants, decision-makers can keep program management, funding, and spending separate. Revenue sharing and grants provide a coordinating mechanism that allows for the coexistence of decentralized spending, centralized tax collection, and redistribution. Tensions between spending assignments and finance arrangements frequently develop since the distributional implications of expenditure decentralization are frequently undesired (Akindele & Olaopa, 2002; Arowolo, 2011).

Although economic theory provides little guidance on expenditure assignments, there are many alternative options available. The diverse range of intergovernmental fiscal arrangements and allocations of expenditures among participating nations is indicative of the disparities in social choices among them. It's also typical for there to be overlaps in duties when it comes to financing, service management, and policy creation. Though the former often has centralized revenue collection to facilitate effective tax administration and to support transfers from wealthy to poorer regions, industrialized countries are generally more decentralized than developing ones (Tanzi, 1994). Not only do intergovernmental fiscal arrangements differ greatly throughout nations, but the level of decentralization within a given nation also frequently shifts over time. There are now noticeable tendencies towards decentralization among the most highly centralized industrialized nations, such as France, Italy, and Spain.

An intriguing macro-level query that emerges from spending assignments is how decentralization levels interact with macroeconomic stability. According to Ahmed et al. (1997), additional macroeconomic controls would be compatible with a more centralized intergovernmental organization because achieving macroeconomic stability depends on controlling government expenditure. They contend that having proper financial mechanisms in place that offer incentives for expenditure controls is a more crucial component of macroeconomic management than the central government's actual administration of expenditure functions. Loss of macroeconomic control can occur in nations with decentralized administration of expenditure functions just as much as in those with centralized management. Thus, it seems that decentralized management with vague policy objectives and inadequate funding sources nearly invariably has detrimental effects on macroeconomic control. Therefore, in a decentralized system where financial obligations and spending administration are separated, building an expense control mechanism may be more complex.

Theoretical Framework

The Wiseman-Peacock theory (1979) forms the theoretical basis for the study. Its evolution dates back to the empirical study of Great Britain using data from 1890 to 1955. Wiseman-Peacock's theory focused on the pattern of public expenditure and maintained that public expenditure does not increase smoothly and continuously but in a jerks or step-like fashion. The theory has three main tenets namely:

Displacement Effect

In response to societal unrest, the government boosts taxes to generate income and increases spending on public services. This results in a displacement effect whereby higher levels of taxes and spending take the place of lower levels. The displacement effect is the shift from a previous lower level of taxation and spending to a new higher level. But once the upheaval passes, individuals adjust to their newfound tolerance for taxes, which increases their willingness to accept higher levels of spending. As a consequence, the recent level of government income and expenditure becomes stable, albeit this equilibrium is swiftly disrupted by a novel disruption, subsequently leading to another dislocation.

Inspection Effect

The inspection effect occurs when the required public expenditure does not match the available revenue. Together, the people and the government assess the state of the revenue, recognize the need to address pressing issues and approve the necessary adjustments to support the increased spending. They become more tolerant of taxes. They are now willing to put up with higher tax burdens, which will lead to an increase in overall spending and revenue. In this sense, public revenue and spending settle at a new level until another disruption happens, which results in a displacement impact.

Concentration Effect

The economic operations of the federal government typically expand more quickly than those of the state and municipal governments during periods of economic expansion. This is known as the concentration effect. It has to do with the nation's political structure. Consequently, with every significant disruption, the government takes on a greater proportion of the gross national activity. The seeming tendency to grow more quickly than state and municipal governments in times of economic disruptions is another aspect of the concentration effect (Peacock & Wiseman, 1979).

The theory proposes that significant fluctuations in public expenditure and revenue are the result of the repetition of abnormal events. Public expenditure and revenue are on the rise due to structural adjustments and economic progress. Public expenditure will continue to increase as long as there is a steady increase in revenue, which can be achieved through the expansion of the economy and structural adjustments.

Methodology

The research design used in the study was documentary. To gather data, secondary sources were employed. The Central Bank of Nigeria (CBN), the Federal Ministry of Finance, Budget, and National Planning (FMFB&NP), the Office of the Accountant General of the Federation (OAGF), and international organizations like the World Bank (WB) and International Monetary Fund (IMF) were among the government and non-governmental organizations from which the data was gathered. Additional published materials used included books, journal articles, and internet documents. Content analysis was used to analyze the data.

Data Presentations and Discussion

Public Revenue in Nigeria

In 2021, general government revenue (% of GDP) for Nigeria was 7.3%. Though Nigeria’s general government revenue (% of GDP) fluctuated substantially in recent years, it tended to decrease from 2011 to 2021. Total federally collected revenue (gross) was 17.7% in 2011 but steadily dropped to 14.7% in 2012, 11.5% in 2013, and 10.9% in 2014. The years 2015 and 2016 also witnessed a decline to 5.1%. From 2017 to 2018, general government revenue rose but experienced fluctuations from 2019 to 2021. In 2021, general government revenue rose to 7.3% of GDP, which was 11.47% higher than the previous year (2020), which recorded revenue at 6.5% of GDP (Table 1). The development was attributed to a significant improvement in receipts from non-oil sources (Table 1).

Table 1

General Government Revenue, 2011-2021 (% of GDP)

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Value	17.7	14.7	11.5	10.9	7.3	5.1	6.6	8.5	7.8	6.5	7.3
Change (%)	-	(17.05)	(21.92)	(4.75)	(33.70)	(29.43)	28.51	29.33	(7.91)	(16.93)	11.47

*Note***.** From "General government revenue for Nigeria", by IMF, 2021. Retrieved from FRED, Federal Reserve Bank of St. Louis, 2023 (https://fred.stlouisfed.org/series/ NGAGGRG01GDPPT); & "Nigeria public finance review: Fiscal adjustment for better and sustainable results" by M. Hernandez, E. Timmis, M. Saldarriaga, S. Matta, N. Mukhtar, G. Joseph-Raji, J. Ogebe & M. Kojima, 2022, Nigeria public finance review: Fiscal adjustment for better and sustainable results. World Bank.

Table 2:
Sources of Revenue to the Three Tiers of Government, 2021 (N'Billion)

Source	Statutory Allocation	Additional: Share from excess oil	Additional: Excess non-oil revenue	Additional: Share from exchange	Share of VAT	FG independent revenue	Internally Generated	Less State allocation to LG	Net Internally Generated	Grants	Share of the stabilization fund	State allocation to LG	Others	Total
FGs Share	2,597.09	0	144.63	46.76	266.11	1,190.08	0	0	0	0	0	0	727.8	**4,972.48**
FCT	50.3	0	2.8	0.9	19	0	0	0	0	0	0	0	0	**73**
Sub-Total	2,647.30	0	147.4	47.7	285.1	1,190.10	0	0	0	0	0	0	727.8	5,045.40
States	1,342.80	0	74.8	24.2	950.4	0	764.8	22.2	764.8	74.4	2.7	0	0	**3,234.10**
13%	449.3	0	0	5.3	0	0	0	0	0	0	0	0	0	**454.6**
Sub-Total	1,792.10	0	74.8	29.4	950.4	0	764.8	22.2	764.8	74.4	2.7	0	0	**3,688.70**
LGs	1,035.20	0	57.7	18.6	665.3	0	26.4	0	26.4	8.9	0	21.9	3.3	**1,837.30**
Grand Total	5,474.64	0	279.86	95.74	1,900.80	1,190.10	791.2	22.2	791.2	83.3	2.7	21.9	731.1	**10,571.43**

*Note***.** Adapted from CBN Annual Economic Report, 2021; OAGF Report, 2021; & FMFB&NP Report, 2021.

The three tiers of government witnessed a marginal revenue increase in 2021 as a result of improved non-oil receipts. The total revenue of N10, 571.43 billion (general government revenue) was obtained from the Federation Account (N5,474.64 billion), VAT Pool Account (N1,900.80 billion), Excess Non-Oil Revenue (N279.86 billion), and Exchange Gain

(N95.74 billion) (Table 2).

Table 3

Federally Collected Revenue and Distribution, 2020 & 2021 (N' Billion)

Source	2020	2021	Budget
Federation	**9,276.10**	**10,755.40**	**12,296.60**
Oil	**4,732.50**	**4,358.30**	**6,071.10**
Crude oil & gas	356.5	34.5	630.05
PPT & royalties	2,803.90	3,070.80	3,322.60
Domestic crude/	1,461.10	1,129.50	1,011.40
Others	111	123.4	221.5
Non-oil	**4,543.60**	**6,397.10**	**6,225.50**
Corporate tax	1,441.50	1,783.10	1,496.50
Customs & excise	909.5	1,298.00	1,132.50
Value Added Tax	1,474.50	2,043.00	1,838.40
Independent	492.3	1,190.10	1,061.90
Others*	225.8	83	696.2
Total deductions/	**2,680.60**	**3,379.90**	**2,970.80**
Federally collected revenue	6,592.00	7,375.50	9,325.80
Plus:	**587.1**	**375.7**	**677**
Excess oil revenue	248	0	0
Excess non-oil	144	279.9	677
Exchange gain	195.1	95.8	0
Total distributed	**7,179.10**	**7,751.10**	**9,733.80**
Federal	3,028.00	3,127.60	4,157.60
State	2,117.20	2,392.10	2,830.70
Local	1,583.60	1,776.80	2,122.00
13% derivation	450.3	454.6	623.5

Note. *Includes Education Tax, Customs Special Levis (Federation Account), National Technology Development Fund, Customs Special Levis, Solid Mineral & Other Mining Revenue, and Non-regular earnings; ** Deductions include the cost of revenue collections and JVC cash calls; while transfers entail provisions for FGN Independent revenue and other non-federation revenue. Adapted from CBN Annual Economic Report, 2021; & OAGF Report, 2021.

Although federation revenue results in 2021 were better than in 2020, they were still below targets because of poor oil receipts. Despite a 2.8% increase in non-oil revenue over its benchmark, the federation's total revenue performance was overshadowed by poor oil collections. The N10, 755.40 billion generated by the federal government in 2021 (Table 3) fell 12.5% short of the 2021 target. Oil revenue made up 40.5% percent of all federation revenue; however, it fell below its benchmark by 28.2% at N4, 358.27 billion (2.4% of GDP). Low domestic crude oil production, which averaged 1.46 million barrels per day (mbpd) compared to the benchmark of 1.86 mbpd, was blamed for the situation. The primary causes were pipeline vandalism, recurring oil theft, and large terminal force majeure. A further factor in the decline in oil income was the growing fuel (PMS) import expense, which was a result of the inadequate capacity for domestic refining. For non-oil revenue, at N6,397.11 billion, or 3.6% percent of GDP, this revenue increased by 40.8% from 2020 levels and accounted for 59.5% percent of the federation's total revenue. Value Added Tax (VAT), corporate tax, and other federal revenue sources that together amounted to 18.6%, 31.9%, and 27.9% of total collections, respectively, were the main drivers of the increase (CBN Annual Economic Report, 2021).

Data from 2011 reveals that N6,158.4 billion was accrued to the Federation Account, representing a 28.7% rise from the 2010 figure. There was N5,085.3 billion left over as net revenue after N623.5 billion, N182.5 billion, and N267.1 billion were allocated to VAT Pool Accounts, FG Independent Revenue, and "other transfers," respectively. Additionally, the surplus crude account was used to cover the following: budget augmentation, the share of the difference between the provisional and actual budget, NNPC reimbursements to state and local governments, and excess crude revenue-sharing, totaling N450.0 billion, N873.6

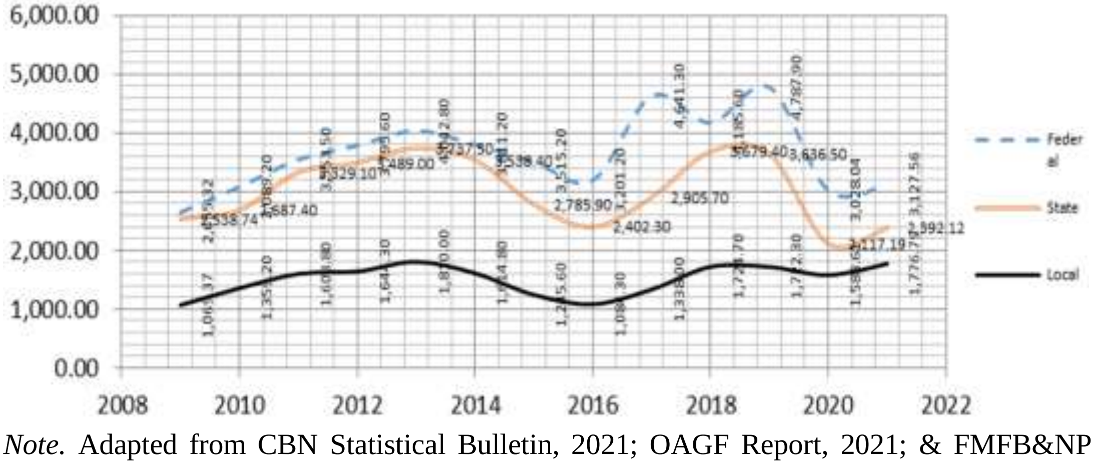
billion, N502.4 billion, and N30.5 billion. The distributable total was increased to N6,941.8 billion by adding these sums to the federally collected revenue (net). Regarding distribution among the tiers of government, the Federal Government (including Special Funds) received N3,240.8 billion, state and local governments received N1,658.8 billion, and the remaining N763.4 billion was shared among the oil-producing states as 13% of the Derivation Fund (CBN Annual Report, 2011).

In 2016, the sum of N4,460.9 billion was retained in the Federation Account, representing a decrease of 23.7% below the level in 2015 (after statutory deductions of N1,155.5 billion). Net revenue of N3,107.9 billion remained for distribution after N778.6 billion, N336.7 billion, and N237.7 billion were sent to the VAT Pool Account, "other transfers," and FG Independent Revenue, respectively. The federally-collected revenue (net) increased to N3,955.7 billion by adding N405.8 billion from the Exchange Rate Differential Account, N323.6 billion from the Excess Crude/PPT Account, N105.5 billion as NNPC Refunds, N9.9 billion as Solid Mineral Revenue, and N3.0 billion as Recovery of Understated Funds. Analysis of distribution among the three tiers of government revealed that the Federal Government (including Special Funds) received N1,964.6 billion, state governments received N957.9 billion, and local governments received N738.5 billion. Oil-producing states shared N294.6 billion as the 13% Derivation Fund (CBN Annual Report, 2016).

In 2021, the sum of N7,375.5 billion was retained in the Federation Account after providing for N3,379.9 billion as a statutory deduction from both oil and non-oil revenue. The distributable amount was increased to N7,751.1 billion after N95.8 billion from exchange gain and N279.9 billion from excess non-oil revenue were added to the federally collected revenue. Available data on the amount distributed among the three tiers of government showed that the Federal Government (including Special Funds) received N3,127.6 billion, state governments received N2,392.1 billion, and local governments received N1,776.8 billion. The oil-producing states shared N454.6 billion as a 13.0% derivation fund [Table 3 and Figure 1] (CBN Annual Economic Report, 2021).

Figure 1

Federation Account Distribution in Nigeria, 2011 – 2021 (N' Billion)



Note. Adapted from CBN Statistical Bulletin, 2021; OAGF Report, 2021; & FMFB&NP Report, 2021

Concerning the VAT Pool Account, the sum of N623.5 billion was sent to the VAT Pool Account in 2011, which was 15.4% more than the amount in 2010. Analysis of distribution revealed that the Federal Government (including the Federal Capital Territory) received N93.5 billion, while state and local governments received N311.8 billion and N218.2 billion, respectively. In 2016, the sum of N778.6 billion was transferred to the VAT Pool Account, recording a 4.1% increment in the account when compared to 2015. According to the analysis of the distribution among the three tiers of government, the Federal Government (including the Federal Capital Territory) received N116.8 billion, while the state and local governments received N389.3 billion and N272.5 billion, respectively. In 2021, the sum of N1,900.8 billion was transferred to the VAT Pool Account. Analysis of the distribution showed that the Federal Government (including the Federal Capital Territory) received N285.1 billion, while state and local governments received N950.4 billion and N665.3 billion, respectively (CBN Annual Report, 2011; 2016; CBN Annual Economic Report, 2021).

Public Revenue Versus Public Spending in Nigeria

The salient details of government spending in Nigeria are indicative of the size of public revenue. The analysis in the section above demonstrates Nigeria's inadequate and unstable public revenue. The over-reliance on oil, an erratic source of income, is the cause of the instability, while the economy's overall low productivity is reflected in revenue shortages and inadequacy. In general, two factors explain the incidence of revenue volatility in Nigeria. The significant and erratic changes in oil revenue, along with the substantial proportion of oil revenue in overall revenue, are the primary causes of revenue volatility. The second aspect directly correlates with non-oil revenue's limited size and slow growth (Aruwa, 2012; Chenge, Oigbochie, & Udoh, 2022).

With the COVID-19 epidemic, the Federal Government's aim to reduce the share of recurrent expenditure in total spending and optimize spending in 2021 was impeded, resulting in increased spending on social welfare and another consumption spending. Although it was 10.5% less than the benchmark, aggregate spending was 18.9% more than in 2020. N4,221.65 billion, or 34.7% of total expenditure, went towards interest payments, while non-debt spending accounted for 65.3% of total spending, falling short of the threshold by 22.6%. Expenditures on recurrent components continued to lead overall expenditures, accounting for N9,145.15 billion, or 5.2% of GDP (Tables 4 and 5). Tables 4 and 5 also show that while transfers totaled N496.53 billion, capital expenditures came to N2,522.47 billion.

Table 4

Federal Government's Expenditure, 2020 & 2021 (N' Billion)

Expenditure	Aggregate Expenditure	Recurrent:	Personnel cost	Pension & gratuities	Overhead cost	Interest payments	Domestic	External	Special funds	Capital Expenditure	Transfers
2020	**10,231.70**	**8,188.80**	2,763.40	359.6	1,572.50	3,264.90	2,711.70	553.2	228.4	**1,614.90**	**428**
2021	**12,164.20**	**9,145.15**	3,046.50	356.1	1,055.40	4,221.70	3,275.40	946.3	465.5	**2,522.50**	**496.5**
Budget	**13,588.00**	**8,966.40**	3,372.30	504.2	1,765.40	3,324.40	2,383.50	940.9	0	**4,125.15**	**496.53**

Note. Adapted from CBN Annual Economic Report, 2021.

Table 5

Economic Classification of Government Expenditure (2021)

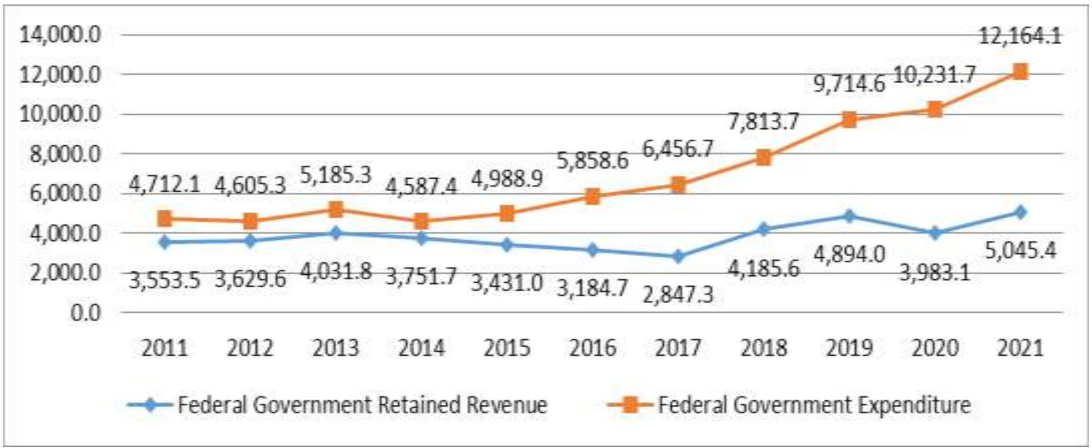
Expenditure	Expenditure category	Recurrent	Capital	Transfers
	Expenditure (N' Billion)	9,145.15	2,522.47	496.53
Percentage share	Admin.	23.7	25.2	-
	Economic services	5.4	43.7	-
	Social services	15.7	12	-
	Transfers	55.2	19.1	-

Note. Adapted from CBN Annual Economic Report, 2021.

Figure 2 and Table 6 illustrate the nature of expenditure by the federal government between 2011 and 2021. According to the presentations, recurrent expenditure has consistently outpaced capital expenditure. Recurrent expenditures in 2011 amounted to N3,314.51 billion (78%), while capital expenditures came to N918.55 billion (22%). Recurrent expenditure was N4,160.11 billion (86%) in 2016 (the median year), while capital expenditure was N653.61 billion (14%). Recurrent expenditure totaled N9,145.16 billion (78%) in 2021, while capital expenditure came to N2,522.47 billion (22%). Between 2011 and 2021, total recurrent and capital expenditures came to N56,534.12 billion and N14,507.46 billion, respectively. This accounts for a 58% difference between aggregate recurring and aggregate capital expenditures.

Figure 2

Federal Government's Revenue & Expenditure, 2011-2021 (N'Billion)



***Note.** Adapted from CBN Statistical Bulletin, 2021.*

Table 6

Components of Federal Government's Expenditure, 2011–2021 (N' Billion)

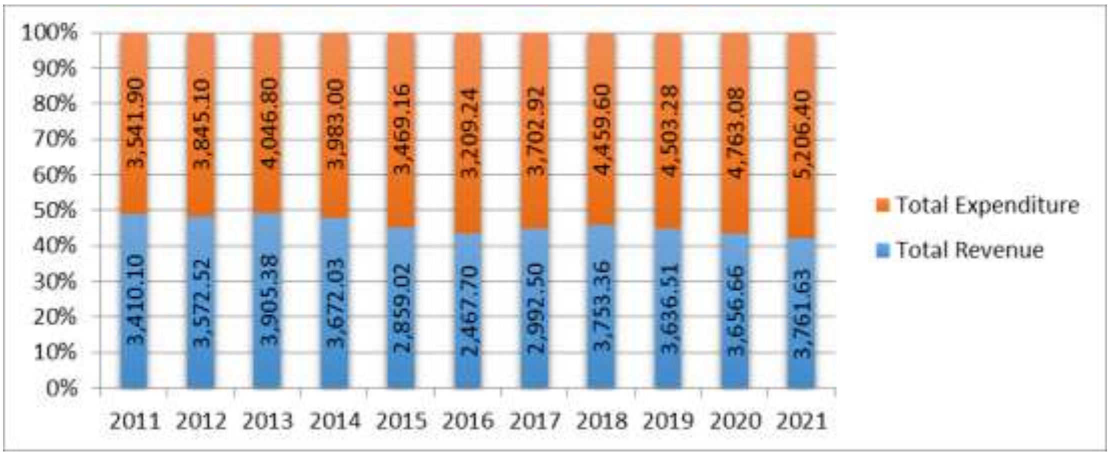
Components	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Recurrent Expenditure	3,314.5	3,325.2	3,689.1	3,426.9	3,831.9	4,160.1	4,780.0	5,675.2	6,997.2	8,188.8	9,145.2
Capital Expenditure	918.5	874.7	1,108.4	783.1	818.4	653.6	1,242.3	1,682.1	2,289.0	1,614.9	2,522.5
Transfers	479.0	405.4	387.9	377.4	338.6	1,044.8	434.4	456.5	428.5	428.0	496.5

Note. From CBN Statistical Bulletin, 2021.

Figure 3 and Table 7 illustrate the expenditure trajectory of the state government from 2011 to 2021. The expenditure structures of state and federal governments are largely in line with each other. The lone anomaly is that in 2012, recurrent expenditure was lower than capital spending (N1,664.40 billion (46%) and N1,965.30 billion (54%), respectively). Recurrent expenditure was N2,007.74 billion (63%) and capital expenditure was N1,201.50 billion (37%), respectively, in 2016 (the median year). 2021 saw N1,194.45 billion (23%) in capital expenditure and N4,011.94 billion (77%) in recurrent expenditure. Between 2011 and 2021, the total amount spent was N28,881.63 billion (65%) for recurrent expenditures and N15,314.49 billion (35%) for capital expenditures. This shows that the total amount spent on capital and recurring expenditures differed by 30%.

Figure 3

State governments' revenue & expenditure, 2011 – 2021 (N'Billion)



Note. *Adapted from CBN Statistical Bulletin, 2021***.**

Table 7

Components of State Governments' Expenditure, 2011 – 2021 (N' Billion)

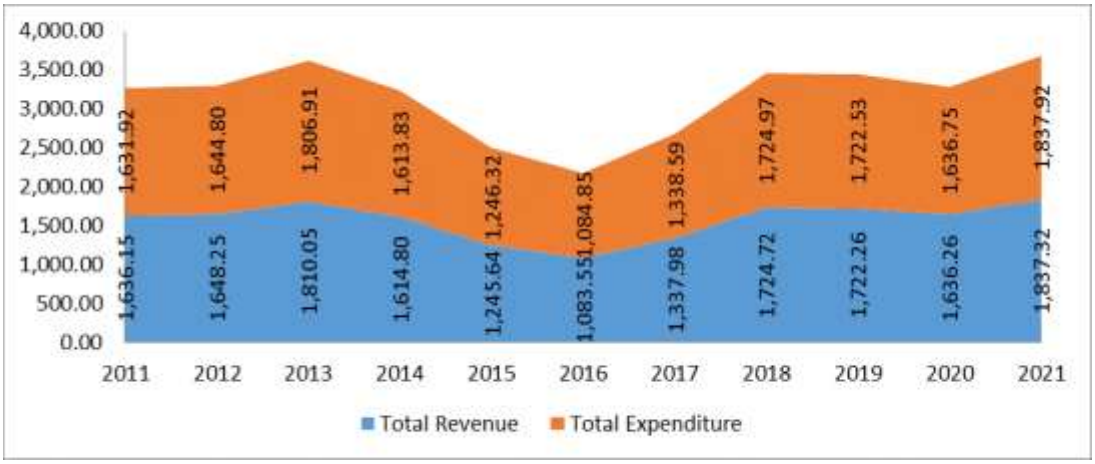
Components	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Recurrent Expenditure	2,055.70	1,664.40	1,948.43	2,120.48	2,267.34	2,007.74	2,662.99	3,252.24	3,283.10	3,607.26	4,011.94
Capital Expenditure	1,375.20	1,965.30	1,890.41	1,862.52	1,201.82	1,201.50	1,039.93	1,207.36	1,220.17	1,155.82	1,194.45
Extra-Budgetary Expenditure	111.00	215.40	207.97	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Note. From CBN Statistical Bulletin, 2021.

Figure 4 and Table 8 show the expenditure breakdown for local government from 2011 to 2021. Recurrent expenditures consistently rank highest on the chart, which shows a significant difference between recurrent and capital expenditures. Recurrent expenditure amounted to N1,279.77 billion (78%) while capital expenditure was N352.15 billion (22%) in 2011. The amount spent on capital expenditure was N90.80 billion (8%), but recurrent expenses totaled N994.05 billion (92%) in the median year of 2016. 2021 recorded N314.02 billion (17%) in capital expenditures and N1,523.91 billion (83%) in recurrent expenditures. In total, N14,493.27 billion (84%) and N2,796.13 billion (16%) were spent on recurrent and capital expenditures, respectively, between 2011 and 2021. The gap between aggregate recurrent and aggregate capital expenditures was 58%.

Figure 4

Local Governments' Revenue & Expenditure, 2011 – 2021 (N' Billion)



Note. *Adapted from CBN Statistical Bulletin, 2021.*

Table 8

Components of Local Governments' Expenditure, 2011 – 2021 (N' Billion)

Components	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Recurrent Expenditure	1,279.77	1,345.42	1,413.97	1,432.60	1,150.43	994.05	1,194.53	1,405.20	1,405.84	1,347.57	1,523.91
Capital Expenditure	352.15	299.39	392.95	181.23	95.90	90.80	144.07	319.77	316.69	289.18	314.02

Note. From CBN Statistical Bulletin, 2021.

It can be extrapolated from the above presentation that government spending in Nigeria over the years (whether at the national or sub-national levels) has shown a preference for recurrent expenditure over capital expenditure. This has been occasioned by revenue deficits that compel governments to satisfy recurrent spending needs before addressing capital spending needs. Economic principles suggest that an excess of recurrent expenditure over capital expenditure is not good for a nation's economic health because capital spending is direct investment spending, whereas recurrent spending is essentially consumption spending. Spending on capital projects produces the capital goods needed to promote rapid development. That is to say, development plans are closely linked to capital spending.

Conclusion

Nigeria's system of fiscal federalism has undergone considerable changes since its independence in 1960. The primary impediment to the success of this system is the lack of a reliable and stable source of revenue at both the federal and state levels. Nigeria appears to be affected at the sub-national level. Sub-national governments often complain that their financial obligations exceed their resources. To foster economic growth, the government at all levels in Nigeria must increase expenditure. Generating additional revenue is the most effective way to increase public expenditure. Nigeria's ratio of revenue to GDP, which stands at 7% in 2022, is one of the lowest rates in the world, according to the World Bank.

To put Nigeria on the path to sustainable fiscal governance with better service delivery, it is essential to adopt a new, multi-faceted strategy that focuses on three interconnected, mutually reinforcing pillars: addressing gaps in the existing tax legal framework; better allocation of expenditure; and strengthening institutions.

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