

CHAPTER - 8

FISCAL FEDERALISM: THE CASE OF FISCAL SPACE FOR SUSTAINABLE DEVELOPMENT AT THE STATE LEVEL IN NIGERIA

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INTRODUCTION

Any responsible government must ensure the sustained improvement in the standard of living of its people. In a country like Nigeria where the bulk of her population are poor (no matter how poverty is defined), it is even more demanding that government through various policy-mix accelerates the rate of economic growth and development. This development transformation needs a sustained period of increased investment spending to support economic growth and ensure the delivery of basic goods and services necessary to achieve human development.

While not downplaying private investment, states through public investments have key roles to play in jump starting growth, poverty reduction and providing the capital goods and investments required to guarantee human development objectives. In order to achieve its objectives public investment must be scaled up including the delivery of social services at some cost to users.

However, existing fiscal rules limit the scope for increased public spending on investment. The fiscal rules were not introduced as punitive measures but rather to ensure macroeconomic stability – a necessary ingredient for sustained growth. There are sound theoretical arguments that persistent fiscal deficits can result in macroeconomic instability. Under Nigeria's fiscal federalism, deficits by sub-national governments can have adverse implications for the wider economy. Therefore, the existing fiscal rules such as the fiscal deficit and the debt/GDP ratios, among others, were not meant solely for the Federal government. In addition, some States have resulted to domestic borrowing through issuance of bonds to finance development. The capacity to manage and sustain debt at the State level is rather low.

Moreover, the trend in Nigeria's fiscal profile has been rather problematic. Large fiscal deficits, more often due to expenditures on either non-viable projects or not being able to account for such expenditures resulted in declining growth, high inflation and high rate of unemployment. The existence of a soft budget constraint due to revenues from petroleum resulted in the economy experiencing the dutch disease. It is also important to note that Nigeria's fiscal federalism constitutionally give State governments expenditure powers without the required revenue handles (Ekpo, 2005).

State governments' fiscal profile must be able to drive and transform the development process particularly given the benefits of expenditure autonomy. Governments at the state level must strive to meet both the objectives of SEED and the MDGs. But does the fiscal space of states provide the conditions for scaling up public investment? This is an interesting issue, particularly with the recent dogma of scaling down public expenditure. It is even more pertinent given the global economic crisis and the need for fiscal stimulus.

The objective of this paper is to examine fiscal space at the level of States in Nigeria by analysing both revenue sources and expenditure patterns often referred to as the fiscal diamond. Section 2 of the paper discusses the framework of analysis while state fiscal profiles are examined in section 3. We conclude in section 4. It is anticipated that the issues raised will stimulate further discussion on the subject matter.

FRAMEWORK OF ANALYSIS

It is often argued that fiscal expansion particularly via increased government spending can result in macroeconomic instability due to increased inflation. In addition, fiscal expansion will crowd-out private investment. Several cross-country studies emanating from the Bretton Word Institutions (BWIs) seem to show such results. Consequently, policy recommendations stressed reduced public sector spending. The conceptualising, formulation and implementation of structural adjustment programmes rest on drastic reduction of public sector spending if an economy is to experience sustained growth with minimal inflation. On the other hand, several country-specific studies confirmed the positive impact of increased public spending on the growth process. This is more evidenced if the enhanced public spending is for infrastructure. The recent study by the IMF recognises that "public investment can crowd-in private investment" thereby reflecting the complementarity of private investment with some components of public investment especially infrastructure (Geupta, Powell and Yang, 2006, pp. 26 – 27).

There is consensus in the literature on the positive effect of infrastructure investment on productivity and output in different regional and sectoral settings. In fact, the poverty trap theories support the notion that investments in infrastructure yield substantial returns in low-income and middle-income countries (Willoughby, 2004). There is ample evidence to support the positive impact of public investment in transportation and communication (and particularly rural roads/and agricultural RSD as well as in power (Ekpo, 1995; Fan *et al.*, 2002; Khtgaard, 2004). However, it should be noted that the type of investment is crucial. For example, public investment in children's health will improve class attendance and ability to learn and better access to water decreases infant mortality figure.

Hence, the question to ask is whether public investment in infrastructure which raises the deficit/GDP ratio slightly than the desired rate is allowable knowing the significance of infrastructure on growth? Must developing countries struggling to escape from underdevelopment whose pro-poor expenditure pattern violates the 'accepted' fiscal rules but with growth-enhancing impact seem to abandon the welfare of its people?

It follows that it is important to advocate a fiscal framework that recognises the human development payback type of a public investment than one that stresses fiduciary payback (Roy, Heuty and Letouze, 2006). The development objectives of Nigeria for example, embedded in NEEDS, the MDGS provide the basis for developing such a framework.

It should be noted that the BWIs approach to fiscal policy stressed the overall fiscal balance and gross public debt as a measure of macroeconomic stability. The point to be made here is that will macroeconomic stability though desirable, result in an all inclusive growth? It has been argued that the BWIs approach has three serious shortcomings which "render the approach unsustainable regarding an assessment of the long-term needs of a typical developing country: (1) the narrow focus on growth and stability ignores the positive impact of public investment on competitiveness and the quality of growth; (2) the use of overall fiscal balance and public debt as the main empirical indicators of 'sound' fiscal policy limits the scope for a public investment led strategy to achieve the MDGs; (3) the reliance on conditionality based programmes (Roy *et al.*, 2006).

Theoretically, public investment development does not negate a building of a market-based economy. What is crucial is the quality of such scaled up investment. The nature of developing countries such as Nigeria stresses the need for a developmental state to provide not just the necessary environment for private sector to thrive but to

intervene and reduce within the shortest possible time poverty. This indicates that the need to maintain sound fiscal policy in order to ensure macroeconomic stability goes beyond managing the fiscal deficit and public debt, "The economic function of government is not merely to maintain a stable macro environment; its primary responsibility to its citizens is to foster the general welfare. A deficit target should not be set that undermines a government's ability to achieve the latter"; macroeconomic stability is only a necessary condition. China and Vietnam are excellent examples of robust public investment which has facilitated both domestic and foreign investment. What are the ingredients that will allow for scaling up public investment within the existing fiscal space? In other words, what will be the desirable features of a fiscal framework that supports a human development oriented public investment strategy whose result are measurable against the background of stated objectives. Can these features increase the fiscal space? The following issues will enhance the fiscal space:

- A clear distinction between current and capital expenditure; fiscal restraint within the existing rules should not discourage growth in the aggregated public capital stock therefore current budget deficit/surplus is more appropriate to select.
- Government should borrow to finance critical public investment like infrastructure and not to finance current expenditure – the "Golden Rule". There is nothing wrong in borrowing if it is properly managed; tax burden can be smoothed over future years and future generations.
- Total debt may not be adverse as long as it is backed by assets whose value if sold or leased to the private sector would provide funds to amortise the debt. Of course, not all assets can be sold to the private sector. The private sector may be interested in purchasing viable power plants as opposed to buying rural schools.
- Public capital used as an input in producing goods and services directly and public capital as output – built by the public sector but will provide longer-term benefits to society over time. For example, health services use labour (doctors and nurses and buildings, hospital dispensaries) to produce health services. In this case, hospitals are capital inputs utilised in producing health services and should be amortised under capital budgets. But nurses' salaries should be financed out of current revenue. However, the output health services, yields returns in the future through higher income paid to a healthier workforce. The question is should nurses' salaries or teachers salaries be treated as capital expenditures given that they yield returns in the future.
- It is not necessarily the outcome of a public investment that makes it different but its role in the capital accumulation process – that is, it is seen as stock

variable providing returns in combination with recurrent inputs (flow variable) over a number of accounting years.

The point being made is that while it is not desirable for government to run current deficits it is also not justifiable for governments to refuse to scale up investment, for example in infrastructure so to ensure inclusive growth and development. Therefore, the fiscal rules should not be too tight to forestall viable public investment in public goods. Hence, allowance in the fiscal space should be to ensure human development.

SUSTAINABLE FISCAL SPACE

A sustainable fiscal policy is one that is not charity-based or relies on exogenous highly volatile sources of external finance. These sources are susceptible to negative shocks. Such a policy must adhere to stated fiscal rules in the long-term; public investment financed through debt instruments must have long-term positive growth effects. In addition, a well articulated medium-term framework fiscal policy is part of a sustainable fiscal policy. At the state level, for example where states are discouraged or cannot borrow externally without the centre's authorisation, it follows that sustainable fiscal space at the sub-national level must consider national fiscal objectives. States can borrow from the capital market. Is there a limit to this type of borrowing or must the federal government co-ordinate debt financing at the sub-national level to ensure macroeconomic stability?

Fiscal space can be defined as: the financing that is available to government due to concrete policy actions for enhancing resource mobilisation, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective, for a specified set of development objectives (Roy, 2007).

It is obvious that states do have fiscal space and must utilise the space to meet their developmental objectives. In recent times the framework for assessing fiscal space is referred to as the Fiscal Diamond.

The fiscal diamond allows for an effective analysis and tracking of revenue sources and expenditures. In the revenue mobilisation (various taxes, levies, etc.), borrowing and deficit financing are included in a typical fiscal space. The fiscal rules, for example, deficit financing should not be more than 3 percent of GDP or in some instance between 3 – 5 percent of GDP to guarantee sustainability. Donor financing and other external sources are included in the fiscal space. An economy cannot rely solely on ODA sources otherwise the economy will be subjected to series of shocks.

On the expenditure side, it is useful to reprioritise or engage in efficient expenditure switching to arrive at some optimum level. States must be able to properly manage their fiscal space by blocking areas of loopholes and eradicating wastages. Increasing expenditure efficacy and prioritisation can scale up or enhance the fiscal space.

It is necessary that state imbibe national fiscal reforms to further enhance their fiscal space. There is no doubt that fiscal, monetary and exchange rate policies are under the purview of the centre. It is for this reason that proper co-ordination of the fiscal side will enable the centre to integrate the latter in its monetary and exchange rate policy. It is also important to state that on the revenue side, state governments do not have much control over taxes as the lucrative taxes are collected by the federal government, put in a pool and shared accordingly to an 'agreed' revenue-sharing formula. The implication of this is that the fiscal space/diamond at the federal level may be subjected to robust fine-tuning than that of the states. But states can still adhere to both the "Golden Rule" of borrowing as well as the zero Current Deficit Rule.

The zero current deficit rule recognises the difference between current and capital expenditure items in the budget as well as ensuring that there exist automatic stabilisers on borrowing for investment which reinforces the golden rule (borrow to invest and not to fund current expenditure). This rule is an important long-term policy target for fiscal responsibility. A deeper analysis of states fiscal profile will indicate whether these rules were followed. Nonetheless, we next examine the fiscal profile of Nigerian states to better understand its trend, structure and composition.

STATE'S FISCAL PROFILE

Nigeria's fiscal federalism involves the division of revenue-generating powers and expenditure responsibilities across the levels of government. Within this context, state governments can raise some revenues by mobilising domestic resources and also receive statutory allocations from the centre based on some revenue-sharing formula. The complexities of this revenue-sharing arrangement have been examined by several authors (Ekpo, 2007; Eboh *et al.*, 2006, Eliagwu, 2007). In addition, states have expenditure responsibilities in order to achieve its developmental objectives of providing different types of public goods in socially optimal and efficient manner.

Therefore, the Nigerian constitution outlines developmental responsibilities for states; some of these responsibilities like health, social welfare, education, culture, commerce, industry, electricity, etc., are shared with the federal government. The responsibilities solely for the states are listed in the residual list. Therefore, over the years, states have to mobilise resources in addition to statutory allocation to be able

to meet its spending obligation. In recent times, states monitor the effectiveness and efficiency of local governments in service delivery. At present, the thirty-six states including the federal capital territory are sub-national governments with relative autonomy in fiscal matters. If fiscal responsibilities are not properly coordinated across all levels of the country, then, it may be difficult to have a sustainable fiscal structure for inclusive growth.

An overview of states' revenues and expenditures indicated significant features about the fiscal space of state governments. Table 1 summarises both revenue and expenditure of state governments for the period 1990 – 2005. It is apparent that except for the period 1996 – 1999, state finances were characterised by large deficits. During the period 1996 – 1998, the economy was experimenting the policy of guided de-regulation hence, there was the strong desire to balance the budget.

It is also interesting to note that the share of capital expenditure in total expenditure averaged about 38 percent during the period 1999 – 2005 while the growth of capital expenditure stood at 36 percent in the same period. Thus, most of the expenditures were on recurrent items. The annual growth of capital expenditures followed a cyclical pattern during the period 1990. In 2000, capital expenditure grew by 163 percent but dropped sharply to 14.3 percent in 2003; thereafter, it increased to 27.4 percent in 2004. For the period 2001 – 2005 recurrent expenditure as a percent of total expenditure stood at 59 percent.

States are heavily dependent on statutory allocation from the federation account. For the period 2001 – 2005, states were about 73 percent dependent on statutory allocation. The distributive pool of account is dependent on oil revenues and given the volatility of the oil market, dependence on funds from the centre for financing development remains unsustainable and problematic. Internally generated revenue only accounts for about 12 percent of total revenue for the period 2001 – 2005 (see Table 3). It is, thus, pertinent that innovative ways of generating revenue must be on the policy menu of state governments if they are to meet their development objectives.

Table 1: State Government Fiscal Profile, 1990 – 2005 (in million ₦)

Year	SR	(STE)	S(+) OR D(-)
1990	19,967.4	20,049.3	-81.9
1991	24,772.2	27,023.7	-2,251.5
1992	32,673.6	37,060.6	-4387.0
1993	37,740.6	44,180.9	-6,440.3
1994	49,506.1	55,916.0	-6,409.9
1995	69,641.7	77,895.5	-253.8

# 1996	89,529.1	83,987.0	5,542.1
1997	96,962.6	92,686.0	4,276.6
1998	143,202.5	143,168.8	33.7
1999	168,990.1	167,896.0	1,094.1
2000	359,072.1	359,670.6	-598.5
2001	573,548.2	596,956.4	-23,408.2
2002	669,817.7	724,537.2	-54,719.5
2003	854,997.1	921,159.7	-66,162.6
2004	1,113,943.7	1,125,057.0	-11,113.3
2005	1,419,137.0	1,478,585.4	-58,948.4

Source: Central Bank of Nigeria. *Statistical Bulletin* Vol. 16, December, 2005

Note: SR = State Revenue, STE = State total expenditure.

Table 2: State Government Capital Expenditure: Annual Growth and Shares in Total Expenditure, 1990 – 2005 (14%)

Year	Capital Expenditure (CE)	$\frac{CE}{TE} \%$
1990	-	33.2
1991	67.3	41.3
1992	46.0	44.0
1993	-11.7	32.5
1994	26.2	32.4
1995	36.4	31.8
1996	17.9	34.7
1997	15.7	36.4
1998	103.5	48.0
1999	-12.0	36.0
2000	163.0	44.2
2001	48.0	39.4
2002	20.5	39.1
2003	14.3	35.2
2004	27.4	36.7
2005	24.6	34.8

Source: Derived from: Central Bank of Nigeria (2005). *Statistical Bulletin* Vol. 16.

State Governmental Fiscal Profile, 1990 - 2005

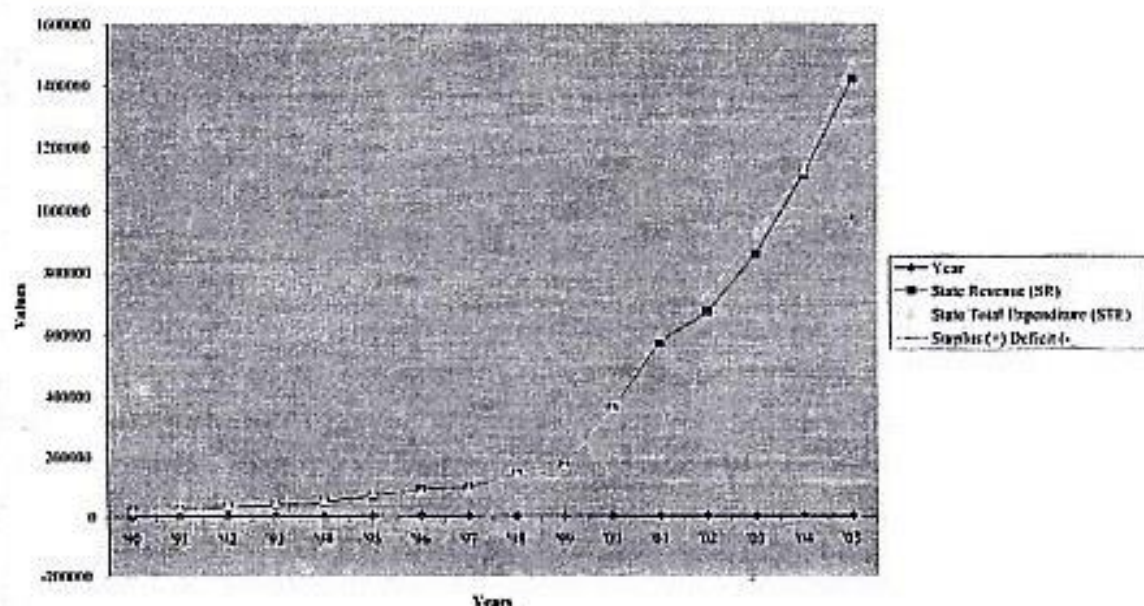


Table 3: State Governments' Finances, 2001 – 2005 (As % of Totals)

Fiscal Indicator	2001	2002	2003	2004	2005	Average
Federation Account Revenue As % of total revenue	78.29	65.83	70.30	78.41	71.03	73.77
Internally Generated Revenue (IGR) % 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: Central Bank of Nigeria: Annual Report and Statement of Account.

Tables 4 – 6 provide summary decomposition of states expenditure pattern. The profile include: administration, economic services and social services. Under administration, there is general administration, state legislature and the judiciary. Economic services comprise agriculture, livestock forestry, industry, commerce, finance, transport, cooperative/supply and rural electrification. Social services consist of education, health, water supply, information and culture, social and community development, housing, town and country planning.

Social services had the largest recurrent share for the period 2001 – 2005 while education services in capital expenditure stood at 39 percent during the same period.

To have some insight into priority areas of government, it is necessary to examine Table 6 and 7 particularly the latter. Capital expenditures are utilised in financing development – enhancing public goods and services. It is this component of the expenditure that stimulates growth; this is not to suggest that recurrent expenditure has no positive influence on growth.

From Table 6, it appears that the priority areas were transport and rural electrification, education, industry and commerce. Was this a deliberate prioritisation borne out of the desire to practice expenditure switching? For the years 2004 and 2005, the shares in total expenditure remained the same. It is interesting to note that increased allocation may not necessarily imply positive impact or outcomes. More work, assuming the availability of data is needed to better ascertain where the observed spending particularly the capital component had positive impact on the state economy.

Table 4: Nigeria: State Governments' Pooled Recurrent and Capital Expenditure into Broad Categories (2001 – 2005/% of Totals)

Type of Expenditure	Sector	2001	2002	2003	2004	2005	Average
Recurrent Expenditure	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: Central Bank of Nigeria: Annual Report and Statement of Account.

Table 5: Pooled State Governments' Recurrent Expenditure into Sector Sub-Groups (As % of Totals)

Sub-Groups	2001	2002	2003	2004	2005	Average
Agriculture, Livestock and Forestry	4.54	3.40	3.53	3.34	3.34	3.63
Industry and Commerce	5.12	0.7	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 Central Bank of Nigeria: Annual Report and Statement of Accounts, 2005.

Table 6: Nigeria: Pooled State Governments' Capital Expenditure into Sector Sub-Groups (As % of Totals)

Sub-Groups	2001	2002	2003	2004	2005	Average
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	18.57	21.98	18.61	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
Town and Country Planning	0.00	4.40	2.62	3.49	3.49	2.80

Source: Derived from Central Bank of Nigeria: *Annual Report and Statement of Accounts, 2005*.

We next examine the *revenue side* of the fiscal profile of states. States derive revenue from many sources such as the Federation Account, internally generated revenue, loans and grants from internal and external institutions. The tax jurisdiction assigned to state governments is shown in Table 6. The federal government collects the lucrative taxes either for efficacy or administrative reasons. However, the nature of Nigeria's fiscal federalism suggests that the centre collects the taxes on behalf of the other tiers of government.

As was shown earlier using a simple measure of internally generated revenue as a ratio of total revenue, it is obvious that states do not have fiscal (revenue) autonomy. The IGR/TR ratio is about 12 percent while for most states the IGR/Recurrent Expenditure ratio is less than 1 percent. This underscores the fiscal vulnerability of these states particularly to shocks from statutory allocations.

It is, therefore, apparent that states cannot generate enough revenue to finance human development. There is more often a limit to increase taxation especially where real incomes are generally low. Should states borrow to finance public investment? The "Golden Rule" allows the public sector to borrow to finance viable capital projects that would be paid-off during the life of the project and not to borrow to finance current expenditures. Do most states have the requirement to utilise the capital market in seeking investible funds? Most States have been reluctant in passing the Fiscal Responsibility Bill for fear of being tied to the fiscal oil-price based rule. However, the Act at the federal level allows for a violation of the fiscal deficit/GDP ratio provided the House of Parliament is notified.

Table 7: Taxes Collected by Federal and State Governments

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 individual
	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) Revenues of the Armed Forces (ii) Revenues of the Nigerian Police Force (iii) Residents of FCT, Abuja (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 (b) Rural areas: (i) N2000.00 for registration; and (ii) N1000.00 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 land owned by the State Government in Urban areas of the State.
	Market taxes and levies where State Finance is involved.

Source: Taxes and Levies (Approved List for Collection) Degree 1998, Decree N0.215.2

Table 8: 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
Ewu	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
Katsina	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

Source: Eboh, E. *et al.* (2006). p. 35.

CONCLUSION

We have examined fiscal space at the state level within the context of Nigeria's fiscal federalism. The analysis suggests that Nigerian states need to scale up public investment particularly in infrastructure in order to reduce poverty. The framework of analysis argues that public investment does not necessarily crowd-out investment but do have crowd-in effects which could stimulate growth. In order to ensure inclusive growth, States in Nigeria must be developmental. It is clear that fiscal co-ordination between the federal and state levels of government is crucial no matter how states manage their fiscal space. The coordination would ensure macroeconomic stability which is a necessary condition for sustained fiscal space at the State level in Nigeria.

There exist sub-national governments but one economy hence, the need to properly manage the economy.

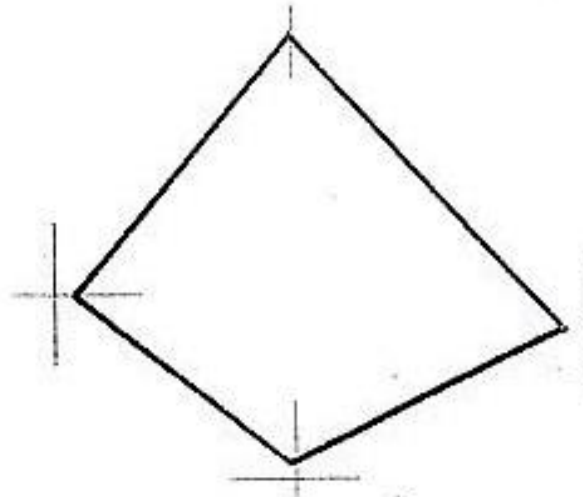
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APPENDIX

1. Official Development Assistance (% of GDP)

4. Reprioritisation & Efficiency of Expenditure (% of GDP)



2. Domestic Revenue Mobilisation (% of GDP)

3. Deficit Financing (% of GDP)