ABSTRACT

This paper used both quantitative and qualitative approaches to answer three questions on fiscal decentralization policy (FDP) and its resultant impacts on poverty, using data from Nigeria. The three questions are: Does FDP share any pattern with poverty in Nigeria?, Is poverty a rationale for FDP in Nigeria?, and What are the resultant impact of FDP on poverty in Nigeria? Past studies on FDP-poverty nexus focused on the processes of FDP and most of them are descriptive. Following Barro (1990) and Skira (2006), an empirical model with two-stage government was specified, estimated and interpreted accordingly. The primary measure of FDP is the share of subnational government (State and Local Governments) expenditure in the total government (Federal, State and Local governments) spending (FDP-expenditure in Nigeria). The other indicator is its analogous revenue counterpart (FDP-revenue). Data were sourced from CBN, UNDP and FOS. The study finds (among others) that, contrary to some existing evaluation of the FDP-poverty nexus elsewhere, the FDP structure in Nigeria is marred by several irregularities (due to weak institution) and thus presents an opportunity for exploitation by subnational bureaucrats and elites. Thus FDP seems to possess a potential to worsen the poverty situation in Nigeria. It is therefore suggested that while maintaining the current revenue FDP, further creation of subnational government units should be discouraged. Subnational public spending requires monitoring and scrutiny, and the federal government must ensure that FDP-compatible institutional and legal framework are put in place and functional.
1.0 Introduction

As internal and external pressure to decentralize mount, especially in the third world, the debate on intergovernmental fiscal relations in federal democracies and multitier-government states, particularly the decentralization of fiscal powers to lower tiers of government, became intense in the last four decades. There is global call for Fiscal decentralization policy (FDP) in all economies. The debate is often on the “why and how” of the devolution of fiscal powers to sub-national government and its resultant effects on key socio-economic indicators. From the developed world to poor nations, sub-national governments are apparently becoming more powerful by the decades. In some, the sub-national government almost absolutely dictates the fiscal power, yet it is has insignificant fiscal power in others. For instance, the United States is 80% fiscally decentralized, Canada 96%, Germany 66%, Switzerland 80%, Zimbabwe 32%, Thailand 12% and Nicaragua 9% (Schneider 2006).

Conceptually, Fiscal Decentralization Policy (FDP) is an aspect of intergovernmental fiscal relations which depicts the delegation and/or devolution of fiscal authority - the decision making power on the composition of public revenue and expenditure - to sub-national governments. Thus FDP is the resignation of fiscal powers from the central government to lower tiers of government, vis-à-vis local councils and states/counties. It is “the empowerment of communities by fiscally strengthening their local governments and the entire system of sub-national government finance are an integral part of the policies and strategies needed for achieving the MDGs” (UNDP 2005:5). It will therefore not be erroneous to aver that a well formulated and executed FDP may reduce poverty. This notion is however seldom refuted in the literature; the current debate is therefore centered on the extent to which the various degrees of FDP adopted in different countries have influenced poverty reduction, especially in a third world country like Nigeria. Unfortunately, there is dearth of quantitative empirical examinations on this issue. Although the devolution of fiscal powers is relatively new in most African states, but this “issue of intergovernmental fiscal relations has been a constant and important fiscal policy consideration in Nigeria” since independence (Alm and Boex 2002:1). Since “it is expected that fiscal decentralization would stimulate…development, there is therefore the need to ascertain whether this has taken place in the country particularly as large amount of resources have been transferred from the center to both State and Local Governments” (Akpan 2004: 33).
The debate on the relationship between FDP and poverty reduction in the literature is unconsensus. One strand of this open argument supports FDP on the ground that it brings government and its activities closer to the people and thus enhances their welfare via regional competition and improved efficiency of public goods delivery (see, for example Oates 1972, 1977 and 1999; Xie et al 1999). The other opposing strand of the argument avers that FDP does not impact on the policy objective of poverty reduction because economies of scale in the provision and delivery of public goods weaken the case for FDP (Thieben 2000). Instead of reducing poverty, another strand argued that FDP gives room for politicians to squander and embezzle public funds, thus impoverishing the people the more (Suleiman 2009). Nevertheless, one assertion can be deduced from the above: a particular pattern of relationship is expected between FDP and policy objective of poverty reduction. The direction and magnitude of this pattern of relationship is better questioned from the point of view of (country based) empirical investigation; thus, the dynamics of the linkages between FDP and poverty becomes a very crucial empirical endeavour.

Nigeria (being a multi-ethnic country) is frequently faced with constant competition for control of the central government and regional autonomy (resource control). Thus, there have always been ethnic demands for more sub-national units of government since 1946. More than often widespread poverty (caused by marginalization, oppression and neglect) is the key rationale for these demands. This was the genesis of a process which has increased the number of sub-national units of government in the country from three regions to thirty six states on the one hand, and seven hundred and forty local governments on the other. However, the poverty reduction argument as a key rationale for the demands for sub-national unit by ethnic groups has been around for decades but yet the country is still classified as one of the poorest in the world. This classification seems to validate the claim that FDP breeds corruption in Nigeria which in turn worsens the poverty level (see Anyaoku 2003; Dazuki 2003).Ironically the Nigeria government has always averred that its decentralized fiscal efforts at combating poverty (which has led to transfer of several billions of naira to sub-national government since independence) yield positive outcome. To resolve this puzzle of claims, it is imperative to place the various variables side by side in an empirical analysis of this sort. Again, the degree of the resultant effect (positive, negative or neutral) of FDP on poverty reduction is thus examinable.

Which ever side of the above debates one belongs, the lack of country based empirical evidence of this sort either nullifies the argument or renders it a weak one. This thus leaves
one pondering on important questions such as; 1. Does FDP share any pattern with poverty in Nigeria?, 2. Is poverty a rationale for FDP in Nigeria?, and 3. What is the resultant impact of FDP on poverty in Nigeria?. This study attempts to proffer empirical answers to these questions using relevant data from Nigeria.

The choice of Nigeria as a case study in FDP-Poverty analysis cannot be timelier than now. FDP-Poverty relation is a current issue of intergovernmental policy discussion and reform in Nigeria. Unfortunately, there is dearth of empirical evidence in the literature to validate (or otherwise) the various views on FDP and its resultant impact on poverty in Nigeria. The few literature (on Nigeria) that examined this subject matter have been narrowly concerned with explaining the trend of intergovernmental fiscal relations within the limited context of political economy and constitutional development in Nigeria (see, for example, Suberu 1991, Akindele and Olaopa 2002). Besides, the current economic meltdown may be said to be the outcome of recent excessive focus on the private sector for the provision and delivery of public goods and services. There is dire need to refocus the attention of government by drawing its attention to the relationships among key socio-economic indicators. The academic literature is thus a good starting point.

In the discussion of FDP-poverty in Africa at large, the few country-based, pooled and comparative studies only make reference to less decentralized economies like Uganda and Tanzania as models, thereby neglecting the adjudged central role of Nigeria in public policy discussions in Africa. Although FDP in Nigeria is marred by several inconsistencies (Aigbokhan 1999), there are a lot of lessons to be learnt from it as it can serve as deterrence to other African and third world nations that are either in the process of decentralization or reforming existing intergovernmental fiscal relation policies. Therefore the findings of this study will have far-reaching practical values for other countries, organizations and the international community. It will also serve as reference point to future researchers on FDP (in general) and its resultant impact on poverty. Although a few empirical studies exist on this subject matter, but the “diversity in the list of factors that have contributed the interest in decentralization which reflects institutional differences across countries” (Ebel and Yilmaz 2002:2) makes the Nigeria’s case a sui generis which ought to be examined independently. Thus an empirical analysis of this sort is very timely.

Given the lacuna of FDP-poverty studies in the literature and the sensitivity of it as a current policy debate, the broad objective of this study is to investigate the resultant impact of FDP on the policy objective of poverty reduction in Nigeria. This broad objective has been
split into the following specific objectives: to determine the degree and trend of FDP in Nigeria over the scope period and examine if same share a pattern with poverty in Nigeria; to empirically verify if poverty or otherwise is a rationale for FDP in Nigeria; and to quantify the resultant impact of FDP on poverty in Nigeria.

Analytically, this study encompasses Nigeria’s FDP-poverty relation from 1970 to 2007. This period is characterized by two constitutional reviews (1979 and 1999), volatile revenue allocation formula, creation of more state and local government units and a major local government reform in 1976. Besides, the availability of relevant data augments the choice of this scope period. Nevertheless, the study touches the period 1946 – 1969 in an attempt to review the background of intergovernmental fiscal relations in Nigeria.

The time and space limitations on this study may form a major caveat in the applications of its findings. Although the study endeavours to be as succinct (and yet thorough) as possible, it definitely cannot be exhaustive of this vast subject matter in three months and ten thousand words. These facts should therefore be born at heart while interpreting and applying the findings of this study.

After presenting a brief but cogent rationale that make Nigeria an interesting case for the empirical examination of the resultant poverty effect of FDP, the next chapter reviews relevant literature and presents a conceptual/theoretical framework for the study. Chapter three discusses the methodology and data. The forth chapter analyses the data, presents and interprets the empirical results. The last chapter summarizes and concludes the study with some policy implications and empirical caveats, thus pointing out potential rationale for further researches.

2.0 Overview of the Nigeria’s Federal System: a conceptual review

Broadly speaking, a federation implies the existence (within one sovereign nation) of more than one tier of government, each with defined expenditure assignments and tax powers or revenue allocation right, where revenues are jointly collected. In the Nigeria context, presently, this consists of the federal government, thirty six states, federal capital territory (of Abuja) and seven hundred and seventy four local government councils. The subnational units of government in Nigeria have constitutional recognition as autonomous units of government. Unlike the de jure form of fiscal decentralization practiced in Pakistan, China and Uganda
(see Mookherjee 2007), elections are conducted to fill political posts and they also have (limited) fiscal powers, as spelt out in the constitution and various fiscal acts in Nigeria. They also have legislative and executive arms of government. “The fiscal arrangement among the different tiers of government in a federal structure is often referred to as fiscal federalism; in other types of political structure it is known as intergovernmental fiscal relations. Sometimes, both terms are used interchangeably” (Akpan 2004: 2).

Specifically, intergovernmental fiscal relations and FDP in Nigeria can be said to be in tandem with its socio-political and constitutional development. After the amalgamation of the northern and southern coasts of Nigeria in 1914, Nigeria was administered as a unitary state with provincial arrangement until 1946 when features of federalism in terms of devolution of fiscal powers surfaced (Ekwueme 2002). Between 1946 and 1999, several constitutional conferences were organized and the nation has adopted various form of FDP ever since. This is evident in the changing revenue allocation formula and the creation of more sub-national government units of states and local governments. The first phase (1948-1953) of federalism in Nigeria “was marked by a centralised financial arrangement in which the excess in the budget of the central government was allocated to regional governments on the principle of derivation” (Peter 2005). The Richards Constitution of 1946 set up a central/national legislative council for the country and divided the country into three regions - north, west and east. The constitution also recognized the formation of regional legislatures for the sub-national governments. Sequel to the McPherson Constitution of 1951, the country became a quasi-federal state in 1951, and was fully federalized in 1954 when yet a new constitution gave more limited fiscal autonomy to the regional governments. While the national government took charge of international affairs, defence, the police, etc., the regions were responsible for primary and secondary education, agriculture, public health services and local government administration. The judicial arm of government, civil service commission and marketing boards were all regionalized. Responsibility for socio-economic development, labour matters and tertiary education were shared between the central and the regional governments.

Sequel to independence from Great Britain in 1960, Nigeria became a sovereign federation of three provinces - Western, Eastern and Northern Regions - under the umbrella of a central government often referred to as Federal Government of Nigeria (FGN). Nigeria became a federal republic in 1963, a republican constitution emerged and an additional region – Mid-western region – was created. The regional arrangement was abolished in 1967 and
twelve states evolved. Today, the country is divided into thirty-six states and one federal capital territory on the one hand; and seven-hundred and forty local governments on the other. Nigeria, in spite of her huge revenue from crude oil, is ranked among world poorest nations (Akinbobola and Saibu 2004). Although the country has been ruled by military dictators most of its existence, with some intermittent interference on the structure of intergovernmental relations, nevertheless the decentralized fiscal and administrative structure of government has been there prior to and since independence in 1960. Local and regional/state governments have always been allowed to raise revenue, undertake spending decisions, and also receive allocations from the federal purse based on some socio-economic and political criteria, even under military rule. At the moment, Nigeria is a country of highly diverse population of over one hundred and fifty million, over three thousand ethnic groups, and very crucial in socio-economic and political discussions on African.

3.0 An Outline of Nigeria’s Poverty Profile

In the 1960s and 1970s, though Nigeria was categorized underdeveloped but poverty was mainly a rural phenomenal; it was not as pronounced in the cities as it is today. As at 1980, only 17% of the urban populace are poor while rural poverty was 28%. Ahluwalia et al (1979) put the national poverty incidence in 1975 at 27 per cent and projected that it would reach 30 per cent in twenty-five years. Since early 1980s, the Nigeria state has been plaqued with high unemployment, increasing lack of basic social amenities and other socio-economic vices. Although widespread poverty is a global concern but the Nigerian case is a paradox; “by all accounts, Nigeria is a richly endowed country, with abundant human and natural resources that make it, potentially, one of the richest in the world” (Akinbobola and Saibu 2004:4).

Table 1: Some Poverty Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty Level (% of Population)</th>
<th>Estimated Total Population (millions)</th>
<th>Population in Poverty (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>28.1</td>
<td>65</td>
<td>17.7</td>
</tr>
<tr>
<td>1985</td>
<td>46.3</td>
<td>75</td>
<td>34.7</td>
</tr>
<tr>
<td>1992</td>
<td>42.7</td>
<td>91.5</td>
<td>39.2</td>
</tr>
<tr>
<td>1996</td>
<td>65.6</td>
<td>102.3</td>
<td>67.1</td>
</tr>
</tbody>
</table>

Despite the various efforts at alleviating it, Akinbobola and Saibu (2004) and World Bank (1999) posit that poverty has been on the rise in Nigeria, though with intermittent minimal and ephemeral decline over the decades. For instance, it declined from 46.3 percent in 1985 to 42.7 percent in 1992; but rose sharply to 65.6 percent of the population in 1996 (see Table 1). Between 1980 and 1996, the population of the poor Nigerians increased by almost four-fold. Oladeji and Abiola (2000: 6) qualifies this period with abject poverty, low growth rate and high inflation:

“The per capita GDP statistics in the period 1990-1995 exemplify a situation of abject poverty for most Nigerians. The growth rate was low and declining while the inflation rate was on the high side and rising.”

### Table 2: Nigeria’s HDI

<table>
<thead>
<tr>
<th>Year</th>
<th>HDI Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>0.321</td>
</tr>
<tr>
<td>1980</td>
<td>0.378</td>
</tr>
<tr>
<td>1985</td>
<td>0.391</td>
</tr>
<tr>
<td>1990</td>
<td>0.411</td>
</tr>
<tr>
<td>1995</td>
<td>0.432</td>
</tr>
<tr>
<td>2000</td>
<td>0.445</td>
</tr>
<tr>
<td>2005</td>
<td>0.470</td>
</tr>
</tbody>
</table>


Using Human Development Index (HDI) (see Table 2), although Nigeria’s HDI rose from 0.321 in 1975 to 0.470 in 2005, but it is insignificant to place it among the medium or high HDI countries. Nigeria is ranked 158 (of the 177 countries in the list) in global ranking using HDI in 2005 (UNDP 2008). This very low HDI is basically a reflection of the lack of access to basic social amenities in the country. A second look at the HDI figures depicts that some less endowed neighbours of Nigeria like Cameroun and Tanzania are categorized among the medium HDI countries. This is worrisome given the fact that Nigeria’s GDP in 2005 is almost four folds on the combination of Cameroun and Tanzania. This raise further questions as to the causes of poor welfare in the Nigerian state; why poverty in a wealthy nation? Ijaiya (1998) cited, among others, the misallocation of resources and fiscal
indiscipline as a root cause of poverty in Nigeria, especially during the 1980s. Aigbokhan (2000) avers domestic policy mistakes as a major underlying cause of poverty in Nigeria, while Thomas and Canagarajah (2002) asserts that socio-economic policies favour one region than the other.

The Nigerian state has made various futile attempts at reducing the poverty incidence in the country (see Table 3), including the reorganizations of intergovernmental fiscal relations and the empowerment of local units of government via more equitable allocation of national resources. This is in the hope to ensuring efficient delivery of public services, especially at sub-national levels. Thus FDP is adjudged instrumental in the fight against poverty if properly implemented (Boex et al 2006). But “among the constraints to the public provision of services for the poor, factors which affect the allocation and use of resources are most critical”. Cogent among these factors seems to be the inefficiencies in the Nigeria’s fiscal (decentralization) structure (World Bank 1996: 82). The sensitivity of this adjudged poverty causal factor in Nigeria notwithstanding, its examination poses a lacuna in the empirical literature which requires urgent attention of this sort.

4.0 Review of Theoretical and Empirical Literature

Traditionally, poverty reduction via FDP is not directly a theoretical rationale for (decentralized) public finances. The three recognized objectives are Resource Allocation, Economic stabilization and Income Redistribution (Sivagnanam 2007). But recently, the FDP literature has attempted to provide blanket theoretical justification for poverty reduction via the efficiency of government through jurisdictional allocation of resources. This new school which justified the need for public management role for sub-national units of government is based on the traditional theory of FDP - fiscal federalism – which deals with "understanding which functions and instruments are best centralized and which are best placed in the sphere of decentralized levels of government" (Oates, 1999: 3). Of the three objectives highlighted above, resource allocation is the most central to FDP. Musgrave (1959) opines that stabilization and distribution functions go to the central government while the allocation function is decentralized to sub-national governments. Sub-national government may also partake of the distribution function (see also, Musgrave 1965, Oates 1972 and 1977, and King 1984).
The key justification of the decentralization of the allocation function is as advanced by Oates (1993: 4), commonly referred to as “decentralization theorem”:

“The basic economic case for fiscal decentralization is the enhancement of economic efficiency: the provision of local outputs that are differentiated according to local tastes and circumstances results in higher levels of social welfare than centrally determined and more uniform levels of outputs across all jurisdictions.”

The back-up rationale for the above assertion is two fold: sub-national governments are adjudged to have informational advantage over the central government as regards the needs, tastes and preferences of the local populace (Thieben 2001, Lin and Liu 1999), and if households are mobile, individuals can “vote by foot” to jurisdictions that produce outputs that best align with their tastes and preferences, thus increasing the potential gains from decentralized provision and delivery of public goods and services (Tiebout 1956). Thus the decentralized provision of public goods and services encourages jurisdictional competition and thus enhance efficiency. And decentralization may encourage innovations as jurisdictions are (to a great extent) autonomous to adopt new approaches to public policy decisions (Oates 2006). Although opposing arguments have countered the above construct, one clear point is evident – FDP is more likely to breed allocative efficiency and thus improve the welfare of the people through efficient service delivery and the matching of expenditure assignments with preferences.

Digressing from Tiebout (1956) and Oates (1972, 1997 and 2005), Steiner (2007) specifies a conceptual model that linked FDP and poverty reduction. The study, considering the Ugandan experience of FDP, avers that efficiency provision of public goods, information advantage of subnational governments and the inclusion of the previously excluded in agenda setting at subnational levels are the nexus between FDP and poverty reduction. Although this model is over simplified and overly generalized, it remained one of the most plausible conceptual FDP-poverty frameworks, especially in poor countries. Nevertheless the relationship between FDP and poverty seems to be very complex and multifaceted.

Samuelson (1954, 1955) and Musgrave (1959) both theorized that (to maximize the potential welfare gains of government spending) public goods and services with national coverage should be provided by the central government, while regional (state) and local public goods and services should be provided by sub-national governments. The simplified model thus is “right spending, improved local welfare” (see figure 1 below). In the long run,
national development and poverty alleviation often hinges on improved sub-national growth and service delivery” (Steiner 2007:175). In a nutshell, the theoretical literature seems to be pointing to FDP as the nexus between economic growth and distributive justice. However, the quality of sub-national government spending decisions (other factors remaining constant) is what affects the welfare of the local populace in the developing world rather than local tax powers. The case, however, may shift position when applying same to the developed world, where government institutions are better organized and operate within an established legal framework. The institutional divergence among nations is thus a major caveat in the blanket examination and application of theoretical models.

Until recently, empirical studies on the relationship between FDP and poverty in the literature are easily countable. The bulk of early works on this subject matter are evaluative surveys based on country observations. VanZyl et al (1995), Semidei et al (1996), Turner (1997), Fox and Ghanim (1998), Timberman (1998), Rao et al (1998), Litvack et al (1998), Bird and Rodriguez (1999) and Manor (1999) are the earliest studies on FDP-poverty relations. Although methodologies and cases differ, their findings can be said to revolve round one factor: the welfare gains from FDP in the developing world are usually eroded by problems associated with uncommitted bureaucracies, weak local capacity (finances and skills), local elite capture, and exclusion of the poor in setting subnational government agendas. However, most of these studies focus attention on forms, content and processes, and not on quantitative evaluation. Therefore the welfare gains from FDP in the empirical literature have only been examined on the surface and thus findings may be far-fetched of the FDP-poverty scenario within the various cases. Nevertheless, very limited exceptions exist.

Braathen (2008) employed primary and secondary data from Tanzania to evaluate the impact of FDP on poverty reduction. The study adopts a descriptive approach and finds that FDP reforms in Tanzania have been in tandem with poverty reduction at sub-national level in Tanzania. However the fact that trend analysis finds that poverty reduced during FDP reform era may not necessarily depicts that FDP was the catalyst. Using five-year interval data from about 165 countries from 1965 to 2000, Skira (2006) adopted a panel data approach in evaluation the resultant poverty impact of FDP. The study finds that FDP only has the potential to reduce poverty. Although this study breaks par with Braathen (2008) by adopting an econometric approach, its conclusion is ambiguous. Problems associated with missing data also expose the findings of this study to empirical doubts. Both studies, like their predecessors exclude Nigeria in their analyses.
In a report compiled by Jette (2005), the Institute of Development Studies (IDS) researchers analyzed the relationship between measures of decentralization and the extent of (pro-poor) public spending. Adopting a simple regression model, the study controls for demographic data, national per capita income and other sensitive variables, and concludes that *decentralization...generally appears to be positively associated with pro-poor public spending*. The empirical nature of this study notwithstanding, its cross-country nature erodes its applications to individual country policy observations. The primary reason is that such studies neglect specific country characteristics while assuming homogeneity of nations in their analysis.

Following some previous studies, Jutting et al (2004) reviews and reconsider 19 country case studies on FDP-poverty relationship. The study finds that:

“...an unambiguous link between decentralization and poverty reduction cannot be established. In some of the poorest countries characterized by weak institutions and political conflicts, decentralization could actually make matters worse” (Jutting et al 2004: 7).

However, most of the studies (Altman and Lalander 2003, VanZyl et al 1995, Gnimadi et al 2003, Bossuyt and Gould 2000, Ellis et al 2002, among others) on which Jutting et al based the above conclusion are either *least empirical* or *non-quantitative* country descriptive surveys. Thus the robustness of such conclusion may be empirically unreliable, especially in a facts and figures scenario of country-based and comparative public policy analysis.

In a broad sense, there abounds literature on FDP but a few on its impact on poverty, scanty country-based quantitative/empirical examination and none examined the peculiarity of the Nigerian situation. Thus the empirical examination of the impact of FDP on poverty is still at a preliminary stage of evaluation; hence there is room for further work on FDP-poverty relation, especially country-based evidence of this sort.

4.1 Techniques of Analyses

In a bid to achieving the objectives specified earlier on, this study adopts the use of both descriptive and econometric approaches. The descriptive approach includes correlation tests, trend analysis, and the use of tables, graphs, ratios and percentages. The econometric technique encompasses the specification and estimation of a Barro-type two-level government
regression model (see Barro 1990). The specified model will be estimated using Ordinary Least Square (OLS) regressions.

4.2 Model Specification

Relying on the FDP-poverty conceptual framework that FDP impacts on poverty through sub-national public spending and jurisdictional revenue autonomy, and following Barro (1990) and Skira (2006) the study specifies the following regression model:

\[ \text{POVty} = \alpha_1 \text{FDP}_i + \alpha_2 \text{GGR}_i + \alpha_3 \text{XGE}_i + \alpha_4 \text{PGR}_i + \alpha_5 \text{ODA}_i + \alpha_6 \text{GNI}_i \] …….. (1)

\( \text{POV}_{ty} = \text{Poverty Incidence} \);
\( \text{FDP} = \text{Fiscal Decentralization Policy} \);
\( \text{GGR} = \text{GDP Growth Rate} \);
\( \text{XGE} = \text{Exchange Rate} \);
\( \text{PGR} = \text{Population Growth Rate} \);
\( \text{ODA} = \text{Official Development Assistant} \);
\( \text{GNI} = \text{GNI per capita, and } i = 1970, 1971, 1972……2007. \)

Equation (1) above can be rewritten as:

\[ P_{ty} = \alpha_0 + \alpha_1 \text{FDP}_i + \alpha_2 \text{GGR}_i + \alpha_3 \text{XGE}_i + \alpha_4 \text{PGR}_i + \alpha_5 \text{ODA}_i + \alpha_6 \text{GNI}_i + e \] …….. (2)

(\( e \) is the error term)

However, in a fiscally decentralized system, the country’s fiscal power (Gov) is devolved to Sub-national government units. In a two-level federation (central and subnational government units), government fiscal power is thus written as:

\[ \text{Gov}_i = \beta_f \text{Gov}_i + \beta_s \text{Gov}_i \] …………………………………………………………….. (3)

[\( \beta_f + \beta_s = 1; \beta_f \neq 0 \text{ and } \beta_s \neq 0 \)]

\( \beta_f \text{Gov}_i = \text{Central Government Fiscal Power; and} \)
\( \beta_s \text{Gov}_i = \text{Sub-national Government Fiscal Power.} \)
Since fiscal power $Gov$ be either Revenue Fiscal Power ($RGov$) or Expenditure Fiscal Power ($EGov$), have:

$$RGov_i = \beta_f RGov_i + \beta_s RGov_i$$ ................................................(4)

$$EGov_i = \beta_f EGov_i + \beta_s EGov_i$$ ..................................................(5)

$RGov_i =$ Total Government Revenue;
$\beta_f RGov_i =$ Fraction of Central Government (f) in Total Public Revenue;
$\beta_s RGov_i =$ Fraction of Sub-national Government (s) in Total Public Revenue;

$EGov_i =$ Total Government Expenditure;
$\beta_f EGov_i =$ Fraction of Central Government (f) in Total Public Expenditure; and
$\beta_s EGov_i =$ Fraction of Sub-national Government (s) in Total Public Expenditure.

The primary variable of concern for this study is $\beta_s EGov_i$ – share of sub-national government expenditure in total government spending. The variable $\beta_s RGov_i$ is both a secondary measure of FDP and an indicator of the revenue (tax) power of subnational government. Thus the model for the study will be:

$$P_y = \alpha_0 + \alpha_1 \beta_s EGov_i + \alpha_2 \beta_f RGov_i + \alpha_3 GGR_i + \alpha_4 XGE_i + \alpha_5 ODA_i + \alpha_6 GNI_i + e$$

Although, the above empirical model seems to be similar to the one used by Von Braun and Grote (2002), the study controls for the more sensitive variables of such as GNI per capita, ODA and GDP growth rate. These variables share significant empirical relationships with poverty (Masud and Yontcheva 2005, Feeny 2003, and Agrawal 2008).

4.3 Data Discussion: Measurement and Sources

Clearly, the definition of fiscal decentralization is multifaceted; thus there is no one best measure of decentralization. However, quantitative indicators of decentralization are required for empirical analysis of this sort. The two measures of FDP most used in the literature are ratios of subnational government revenues and expenditures (see, for example, Zhang and Zou 1998, Lin and Liu 1999, and Skira 2006). From the point of view of expenditure, FDP depicts the ratio of subnational government (regional, local or the sum of the two) spending to total government (central, regional and local) spending. This ratio
measures the responsibility of subnational government units for administering and delivering public goods and services in their various jurisdictions. The same applies to revenue FDP; the two are analogous. This ratio (revenue FDP) measures the (limited) fiscal autonomy of subnational governments. The data used to generate these measures are public spending figures sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, Volume 18 (2007), and Federal Office of Statistics (FOS-Nigeria) publications. They are annual data from 1970 to 2007.

The multi-dimensional definitional and measurement issues associated with FDP are even more pronounced with poverty. Various definitions and measures of poverty have evolved over time. In the 1970’s, poverty was considered a condition of low income and lack of access to basic needs like shelter, food and clothing. During the 1980’s and 1990’s, poverty measures expanded to include non-monetary considerations such as primary education, basic health, vulnerability, empowerment, and participation. The commonest measure of poverty is the poverty incidence (the percentage of the population that falls below a certain income-poverty threshold). The Human Development Index HDI is adjudged a very good measure of poverty in modern political and economic literature because of its composite nature. This study adopts these two measures from the above; poverty incidence and (HDI). Poverty incidence is an annual data (1970-2007) sourced from National Bureau of Statistics (NBS-Nigeria) various publications and extracts from (and estimates based on) other studies (Oriola 2009, World Bank 1996, Thomas and Canagarajah 2002, Akinbobola and Saibu 2004, among others). The HDI data is sourced from UNDP online database. It is a five-year interval data from 1975 to 2005.

Other annual data (1970 – 2007) used in this study are Exchange rate, Gross National Income (GNI) per capita, Official Development Assistant, Population Growth Rate and GDP growth rate. These set of data are used as explanatory variables and sourced from World Bank (WDI, GDF and ADI) online databases.

5.0 Data Analyses and Interpretations

Sequel to the objectives of this study, this section analyses the FDP-poverty relationships using the data listed in the last section. For clarity sake, this chapter follows the order in which the study’s objectives were listed in chapter one. The next four sections of are thus devoted to answering the four questions raised in this study.
5.1 Is the degree of FDP in tandem with Poverty Reduction in Nigeria?

To answer this question, the study adopted two descriptive techniques: a trend analysis using line graphs, and a correlation test. The two outputs are presented in Figures 4.1, 4.2 and 4.3, and Table 4.1 respectively.

On the whole, the average degree (in %) of fiscal decentralization for the thirty-eight years under review is 36.97%. In the 1970s, the average degree of FDP is 32.60; it rose to 39.60 in the 1980s and sharply fell to 28.40 in the 1990s, an era characterized by autocracy and tyranny under the Sanni Abatcha military regime. The figure in peaked at average 49.88 under civilian administration between 2000 and 2007.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDP.EXP.1970.20 07</td>
<td>38</td>
<td>19</td>
<td>56</td>
<td>36.97</td>
</tr>
<tr>
<td>FDP.EXP.1970.19 79</td>
<td>10</td>
<td>28</td>
<td>36</td>
<td>32.60</td>
</tr>
<tr>
<td>FDP.EXP.1980.19 89</td>
<td>10</td>
<td>29</td>
<td>56</td>
<td>39.60</td>
</tr>
<tr>
<td>FDP.EXP.1990.19 99</td>
<td>10</td>
<td>19</td>
<td>37</td>
<td>28.40</td>
</tr>
<tr>
<td>FDP.EXP.2000.20 07</td>
<td>8</td>
<td>42</td>
<td>56</td>
<td>49.88</td>
</tr>
</tbody>
</table>

Source: SPSS output 15.07.2011.

Using the FDP-HDI trend in Figure 4.1, poverty seems not to share any particular pattern with FDP in Nigeria. Although the HDI is very low (depicting Nigeria as one of the poorest in the world), it exhibits a steady upward movement while FDP meanders through the period. However, the unstable movement of FDP appears to flow with the centralized and decentralized features peculiar with military and civilian regimes respectively. FDP rose at the later part of 1976-1980 period (an era characterized by a civilian regime) and fell at the later
part of 1981-1985 period when the military took over power late 1983. It was continuously low until the later part of period 1995-2000 when democratic government came to power mid 1999. This zigzag FDP trend (which is in tandem with regime changes) corroborates the assertion that authoritarian (military) government tends to be fiscally centralized and otherwise for civilian regimes (Landry 2004, 2005). Interestingly, while FDP fluctuates with regime change, the HDI maintained its weak but upward movement. Thus regime type rather than poverty seems to be a major influence for FDP in Nigeria. The HDI trend hence only represents the insignificant achievement of the various poverty alleviation programmes initiated regime after regime since the civil way ended in 1969.

**Figure 4.1: Nigeria (1971-2005) – Five-year interval average FDP-HDI trend (%).**

Source: Author’s Computation using sourced data.

Figure 4.2 seems to corroborate Figure 4.1 in that poverty incidence also maintained an upward movement for most part of the period while FDP fluctuates in response to regime changes. Let me digress here by pointing out that although poverty incidence soared in contrast with the slow upward movement of HDI (compare figures 4.1 and 4.2), the implication is that the seemingly better living standard achieved during the period is limited to few urban centres while the number of people that live below the income threshold keeps growing, especially in the rural areas which accommodate about sixty percent of the poor in Nigeria (Aigbokhan 2008). Following these two trend analyses, one may be tempted to conclude that poverty does not seem to respond to FDP in Nigeria.
The correlation result in Table 4.1 seems to reiterates the assertion that poverty appears not to share a particular trend with FDP in Nigeria. From the SPSS output, FDP and poverty possess a very weak positive correlation of 11.5%. Thus FDP may not (on its own) be able to achieve the desired impact on poverty in Nigeria unless it is supported by the necessary institutional and legal frameworks, which the country lacks.
Table 4.1: FDP-Poverty Correlation test.

<table>
<thead>
<tr>
<th></th>
<th>FDP.EXP</th>
<th>POVERTY.INCIDENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDP.EXP</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>38</td>
</tr>
<tr>
<td>POVERTY.INCIDE NCE</td>
<td>Pearson Correlation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: SPSS output 15.07.2011.

5.2 What are the Determinants of FDP in Nigeria?

In this section, the study attempts to determine the factor(s) that inform the degree of FDP in Nigeria. Although FDP is both a constitutional and act of parliament matter in Nigeria, the divergence between constitutional and parliamentary provisions and realities in intergovernmental relations is obvious. The expenditure and revenue assignments of each level of government are spelt out in the 1999 constitution and a military decree made in 1988 respectively while revenue allocation formulas are ratified by the parliament, thus one ordinary will expect a particular relationship between subnational revenue and expenditure, where these provisions are adhered with by the various levels of government. Given the position of the country in the comity of nations, constitutional provisions are made in the aim to encouraging both jurisdictional and national economic development, thus poverty reduction is at the heart of constitutional provisions in Nigeria. The trend analysis in Figure 4.4 exposes the deviation from constitutional and parliamentary provisions – a situation of gross fiscal indiscipline.

The gap between FDP-EXP and FDP-REV depicts the fiscal deficits amassed by subnational government in Nigeria. Again, this deviation is more pronounced during civil administration than military regimes (see Figure 4.4).
1999-2007) excessively allowed subnational governments to contract loans outside their IGR and allocations from the federation account. Thus regime type, more than any other factor, is an effective determinant of expenditure FDP in Nigeria. This is rather a bad omen for poverty reduction in Nigeria. Some case studies have previously warned that FDP may be dangerous in the event that subnational units of government are allowed to indiscriminately expand expenditures (see Rodden 2002). This is usually the case in Nigeria, especially during civilian administrations.

Figure 4.4: Nigeria (1970-2007) – Annual FDP (Expenditure and Revenue) trend.

Source: Author’s Computation using sourced data.

When placed sides by side (in a regression model) with other variables like poverty, economic growth rate and population growth rate (see Table 4.2), regime type has the strongest and significant influence on FDP in Nigeria. Regime change (from military to civil rule) explains 71.1% increase in the degree of FDP. Interestingly poverty is not a significant rationale for FDP. Thus the enlistment of poverty reduction as a policy objective in FDP in Nigeria may be far-fetched. Instead, the entire FDP process seems to have been turned a political instrument for policy makers seeking re-election. Although the number of subnational government units have not increased under the current (and the longest) civilian era, they seem to have excessive freedom at contracting loans and embarking on a number of white elephant projects, and federal allocation to subnational unit of government have sky rocketed due to increased total public revenue and new revenue allocation formula that is more favourable to subnational units of government.
Table 4.2: Testing for factors that influence FDP in Nigeria.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>38.115</td>
<td>7.753</td>
<td></td>
<td>4.916</td>
</tr>
<tr>
<td>Poverty Incidence</td>
<td>-.071</td>
<td>.107</td>
<td>-.086</td>
<td>-.664</td>
</tr>
<tr>
<td>Regime Type</td>
<td>14.705</td>
<td>2.671</td>
<td>.711</td>
<td>5.506</td>
</tr>
<tr>
<td>Population Growth Rate</td>
<td>-1.220</td>
<td>1.993</td>
<td>-.077</td>
<td>-.612</td>
</tr>
<tr>
<td>GDP Growth Rate</td>
<td>-.062</td>
<td>.196</td>
<td>-.040</td>
<td>-.316</td>
</tr>
</tbody>
</table>

a. Dependent Variable: FDP.EXP

Source: SPSS output 15.07.2011.

5.3 Is FDP poverty eroding in Nigeria?

This section used the main specified model to test for the hypothesis that FDP is not poverty eroding in Nigeria. The simple empirical result (see Table 4.3) is mixed but meaningful. While the revenue power of subnational government is capable of reducing poverty, FDP-expenditure (the primary indicator of FDP) poses a threat to poverty reduction in Nigeria with its positive coefficient, though very low and statistically insignificant. After controlling for other important variables, the result depicts that a unit increase in the degree of FDP-expenditure accounts for 0.6% increase in the poverty incidence. Although this positive coefficient is very weak and not significant, it sends a signal that FDP possesses a potential to worsen the poverty situation in Nigeria.
Table 4.3: Testing for the impact of FDP on poverty reduction

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>47.394</td>
<td>29.806</td>
<td></td>
<td>1.590</td>
</tr>
<tr>
<td>1. FDP-expenditure</td>
<td>.007</td>
<td>.214</td>
<td>.006</td>
<td>.034</td>
</tr>
<tr>
<td>2. GDP Growth Rate</td>
<td>-.382</td>
<td>.222</td>
<td>-.201</td>
<td>-1.718</td>
</tr>
<tr>
<td>4. Exchange Rate</td>
<td>.176</td>
<td>.039</td>
<td>.709</td>
<td>4.463</td>
</tr>
<tr>
<td>5. Official Development</td>
<td>6.471E-7</td>
<td>.000</td>
<td>.110</td>
<td>.834</td>
</tr>
<tr>
<td>6. GNI per capita</td>
<td>-.020</td>
<td>.009</td>
<td>-.337</td>
<td>-2.236</td>
</tr>
<tr>
<td>7. FDP-Revenue (Subnational</td>
<td>-.581</td>
<td>.234</td>
<td>-.295</td>
<td>-2.483</td>
</tr>
<tr>
<td>Government Revenue Capacity)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Poverty incidence. $R^2 = 68.80$ Observation: 38

*, ** and *** indicate that the variables are significant at 1, 5 and 10 percent, respectively.

The sharp contrast exhibited by FDP-revenue indicator depicts that revenue generation at subnational level is not the problem in intergovernmental relations but how these hard earned public funds are spent. A unit increase in the revenue arrangement to subnational government accounts for a significant 29.5% reduction in poverty. Ordinarily, since increased subnational government revenue is good for poverty, it is logical to expect same for expenditure. Interestingly, the reverse is almost the case. By implication, there seems to be a missing link between public revenue generation and spending at subnational government level in Nigeria. Decisions on public expenditures at subnational level are often tilted toward
unproductive activities - classy gift items to political allies, white-elephant construction projects - that can deliver large kickbacks and political returns to the officials who award them. The following interwoven but distinct reasons, among others, are applicable for these results:

1. **Public Funds Misappropriation** – Corruption is endemic in Nigeria but it is taking a firm hold at the subnational government level. Fiscal decentralization is thus an exposure of public funds to corrupt local politicians. In some local government councils (especially in the north), fiscal allocations from the centre are often embezzled or spent on shadow projects. Misappropriation of funds at subnational level may not necessarily be on purpose. In some cases, especially at local government level, the local bureaucrats lacks the prerequisite knowledge in executing public policies and thus end up embarking on white-elephant projects that will not improve the welfare of the people. Thus a dilemmatic situation is created; the federal government is not informed and the subnational governments (especially local councils) do not know how to do it. Eventually, the situation gives rise to inefficiency and corrupt practices as funds are grossly misappropriated. This is usually the case in Northern Nigeria where literacy level is extremely poor (see [http://allafrica.com/stories/200803240363.html](http://allafrica.com/stories/200803240363.html)).

   According to the Economic and Financial Crime Commission (EFCC), more than US$380 billion of public funds were misappropriated by political leaders in Nigeria between 1960 and 1999. During the administration of General Ibrahim Babangida alone (1985-1993), US$12.2 billion oil revenues were not accounted for, and his successor was alleged to have personally stolen about US$3 billion (Aiyede 2009). These figures are so massive that they overshadowed the ones that goes on at the subnational level of government, thus no one seems to consider misappropriation at that level a case for concern. But corruption is also massive at subnational levels of government in Nigeria (Suleiman 2009). Since corruption will never be a harbinger to improved welfare and FDP has a potential to encourage corruption (Prud’homme 1994), the above empirical outcome is more likely to hold good case for Nigeria.

2. **Fiscal Indiscipline** – There have been worries in Nigeria that incoming subnational heads of government are always met with deficits upon resumption of office. In such
situations, the new incumbents are often faced with first sorting out the issue of mounting debt stocks rather public goods provision. Regrettably enough, most of these contracted debts are hidden from their books to the public. Thus funds that are supposed to be put into the acquisition and delivery of public goods and services are shared between debt servicing and public goods provision. I have previously established that subnational fiscal indiscipline is in tandem with civil rule in Nigeria, and FDP is seen as an antidote to re-election issues by incumbents. Thus FDP encourages growing subnational fiscal deficits (due to weak institutional framework) and this may unlikely be poverty eroding in a country like Nigeria.

Why these gross fiscal indiscipline at subnational level of government in Nigeria? The common justification for this has been that, for instance, local governments have access to very limited tax bases and face lower potential of cost recovery because the population they service is largely poor. But the share these subnational units of government from the federation account is massive. Khemani (2001) aver that:

“...in the context of the Nigerian economy, states and LGAs receive substantial amount of resources, with their total revenues amounting on average to over 5 percent of GDP between 1990 and 1999, and over 10 percent of GDP after the oil price increase in 1999”.

Low IGR may therefore not be a valid reason for subnational government officials to keep contracting injudiciously spent debt, especially at the end of their term in office. Instead, the legal framework under which local bureaucrats carry out their fiscal assignments in Nigeria is very weak, and the legislative arm often collude with the executive because the political terrain is also not neutral enough to allow multi-party subnational government composition.

3. **Exclusion and Local Elite Capture** – Contrary to expectation, subnational government units in Nigeria place more emphasis on the welfare of their political allies and elites. In the presence of heterogeneous preferences and unequal information access to subnational government activities, subnational political allies and elites easily collude to impose their own desires on subnational policy makers, and even on external funding agencies in some cases. This class of people often receives higher
amount of public goods and services, a sort of political favouritism. The presence of information asymmetry between subnational policy makers and the jurisdictional populace easily leads to excluding the poor from subnational government agenda setting and thus their opinion are not usually sort on matters that sensitively affects their welfare. This information asymmetry is often deliberately created by the subnational government officials and their political allies and elites. That apart, most of the subnational government jurisdictions in Nigeria are dominated by lineage and patronage-based relations, and some, in addition, are ethnically fragmented. The system thus, by default, encourages exclusion of the very significant poor in setting of subnational government agenda. Consequently, jurisdictional fiscal arrangement is unlikely to fulfill its welfare enhancing objective.

4. **Weak Institutional and Legal Framework** – This factor seems to be the most important of all as it tend to encompass the other three. Subnational government arrangement in Nigeria lacks proper institutional and legal framework within which the bureaucrats operate. Where these frameworks are applicable, they are seldom adhered to. In some cases, state government hijacks local government fiscal allocations and the weak legal frame work does not permit council bosses to challenge the actions of governors. Contrary to the 1999 constitution, for instance, local councils are seldom accorded the seemingly autonomous status as a level of government in Nigeria. Even constitutional provisions on expenditure assignments seem ambiguous. For instance the provision of some basic services like primary education and health, water and sanitation, and local roads are assigned as the responsibilities of the state and local governments, with no clear legal/constitutional delineation between the relative roles of these two subnational tiers of government. The execution of these functions is thus at the discretion of state governments. This erodes the seemingly autonomous constitutional status of local councils as the third tier of government in Nigeria.

While the constitution empowers subnational government fiscally, they lack the institutional capacity to execute their fiscal assignments. The resultant effect is a waste of the huge fund allocated to subnational governments from the federation account. Weak institutions and ineffective legal framework in Nigeria have also failed international aid efforts. The ODA is not poverty eroding, instead it exhibits a
potential to worsen it (see Table 4.3). This is because the weak institutions in Nigeria encourage corruption and misappropriation of public funds. These hydra-headed problems have been found to be detrimental to the welfare of the people (Oriola 2009, Nwagwu 2008), no matter how sincere the policy objectives are. This view augments the conclusion of Ellis and James (2002: 16) that “these adverse institutional contexts keep people poor, and they make decentralized government part of the problem of chronic rural poverty not part of its solution”.

From the foregoing, it can be deduced that the deepest root cause of poverty reduction ineffectiveness (especially at subnational level) in Nigeria is not a lack of resources to subnational government or international aid. Rather, it is a lack of effective economic and political will - the inability or unwillingness to apply public resources and policies judiciously. At the subnational level, the bureaucrats are either not neutral or incapable. The lacks of functional and effective institutional and legal framework also worsen the situation. Thus the conventional argument (in favour of decentralization) that subnational government units are more accountable for their decisions may not be true in Nigeria (Tiebout, 1956; Wolman 1990; Fisman and Gatti, 2002).

The GNI per capita is poverty-eroding and statistically significant at 5%. This is because this data assumes that the nation’s wealth, centralized or decentralized, is evenly distributed among the citizenry. However, this is never the case in Nigeria, a country with clear evidence of worsening inequality (Aigbokhan 2000). The gap between the poor and the rich grows wider everyday as the nation’s wealth is amassed by few corrupt individuals. Although the economic growth rate drags very slowly, its poverty eroding potentials (see Table 4.4) are often eroded by staggering corrupt practices. An economy with these experiences cannot rely on FDP to combat poverty successfully. FDP thus should be one of the background poverty-eroding socio-economic and political frameworks aimed at reducing the poverty level.

The central government also seems to have failed in its macroeconomic stabilization duty. From the analysis in Table 4.3 above, the unfavourable exchange rate has been a very sensitive and significant factor in the deteriorating poverty situation in Nigeria. In an economy that is import oriented, foreign exchange shocks have great impact on the welfare of the poor populace who spend almost a significant share of their income on food consumption.
6.0 Summary and Conclusion

This paper examined the FDP-Poverty relationship in Nigeria, in the hope to validate (or otherwise) the broad theoretical postulation that FDP possesses poverty-eroding potentials. To check for this, this study used annual (secondary) data to analyze FDP-poverty nexus in Nigeria, within the 1970-2007 scope periods. While the trend and descriptive analyses generally suggest that there seem to be no direct causal pattern between FDP and poverty in Nigeria, the key empirical finding signaled that FDP can actually lack the adjudged potential to help reduce poverty in Nigeria. Many reasons were offered for this: weak institutions, corrupt practices at subnational level, local elite capture, and gross fiscal indiscipline at subnational level. The study also nullifies the opinion that subnational government units in Nigeria are short-funded. The study finds that the degree of subnational government units’ revenue (fiscal) capacity (i.e. FDP-revenue) is okay to provide and deliver subnational public goods that positively affect the welfare of jurisdictional populace.

Although FDP may possess welfare enhancing potentials, especially in fiscally disciplined and less corrupt nations with established institutions, the systemic peculiarities of government institutions in poor and very corrupt countries like Nigeria call for special considerations. For instance, the World Bank introduced the Community-Driven Development (CDD) approach, a decentralized Comprehensive Development Framework committed to poverty alleviation in poor countries (see Mansuri and Rao 2004). Recently, Platteau (2008) opines that available empirical evidence “does not unambiguously confirm the view that community-based development projects are more effective than more conventional approaches in terms of efficiency, equity (reaching the poor), and sustainability”.

The perspective of this paper is that though poverty reduction is more of an economic issue, it evolves from political interactions and policy responsiveness, especially in the judicious application of public funds to poverty eroding projects at the subnational level. Although international trade shocks such as unfavourable exchange rate have worsened the poverty level, persistent poverty in Nigeria can be attributed to systemic conditions. In respect to FDP, further fiscal decentralization should be discouraged while the current expenditure assignments require strict monitoring from the central government. The existing institutional and legal frameworks should be re-arranged and made functional. For instance, the local populace should have some information access to subnational government books as regards revenue generation and how the funds are spent. A functional legal framework that disallows willful fiscal indiscipline of subnational bureaucrats should be put in place.
The fight against corruption in Nigeria at the moment is concentrated at the centre and selective, whereas huge amount of public funds are embezzled at the subnational levels. It is imperative for the anti-graft commission in Nigeria to extend its tentacles to the state and local governments too, and should be neutral in its endeavour. There have been cries in the past that the anti-graft bodies in Nigeria only hunt the opposition. The body should be at least quasi-autonomous in carrying out its duties and intervention from the government should be very minimal, if not completely absent. The body too should carry on its assignments indiscriminately within the context of the rule of law.

Fiscal Decentralization, as we have seen in preceding chapters, ought to be quite instrumental in the fight against poverty. However, where decentralization is engrossed with irregularities like the case of Nigeria, there is the risk that those theoretical potential benefits of FDP will only not materialize but also tend to worsen the poverty problem. Innate and peculiar characteristics such as weak institutions, lack of effective judiciary, corruption, lineage and patronage-based policy execution, among others make subnational government units vulnerable to serious pitfalls in Nigeria. Considering the nature of the findings here, one may conclude that it will actually take more than FDP to fight the poverty situation in Nigeria. The institutions are due for an overhaul, and such reform must be neutral. In recent times, the Nigerian leaders have politicized every aspect of the economy. Thus FDP should not be adjudged a solution to poverty but could augment poverty-eroding policies if well implemented.

Socio-economic and political policies seldom operate in isolation, they often hinge on the success of existing supporting policies. Therefore for Nigeria to be able to take full advantage of the conceptualized poverty-eroding potentials of FDP, it needs to meet the prerequisites of good governance, transparent political and administrative institutions, effective bureaucracy and well executed macroeconomic policies. Further decentralization of public expenditure without these factors in Nigeria may lead to serious socio-economic chaos, with a high potential to adversely affect the welfare of the populace. The global case for decentralization thus seems to be based on the success posted in countries with unambiguous and functional institutional framework, and effective socio-economic and political supporting policies.

From the foregoing, the blanket justification FDP breeds improved welfare through allocative efficiency may not be justifiable in all countries given the peculiarities that exist within individual countries. The findings here thus may take a different dimension when same
are examined in a different country setting. However, FDP-poverty nexus is more complex an issue than portrayed in this paper due to time and space limitations. Moreover, the submission in this paper is based on the nature of the Nigerian economy. There are therefore rooms for further expansion of the literature on FDP-poverty nexus, especially in Sub-saharan Africa where the FDP models appear weak and poverty endemic. Such work may be extended to include the identification, categorization and analyses of the nature and peculiarities of the FDP-poverty relationships and their causal factors. Country based research will be best for this kind of academic endeavour as it will help shape the modeling and designing of country compatible and welfare enhancing FDP model.
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