EQUITABLE BUDGETARY ALLOCATION: A CATALYST FOR ACHIEVING NATIONAL DEVELOPMENT OF NIGERIA

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Abstract

Fiscal federalism compelled state and local governments to heavily rely on monthly subvention from the federal government to cover their cost of both day to day and long term financial needs. The present arrangement of the revenue distribution formula laid much emphasis on the revenue derivation (revenue source) at the expenses of the financial needs of the state and local government. This subjected most of the states in the northern part of Nigeria to receive very little in spite been relatively densely populated compared with the other geopolitical regions. The repercussion of the foregoing is a massive proliferation of poor more especially in the northern-eastern geopolitical zone. This study critically examines the effect of budgetary allocation of national development. It was found in this paper that skewed budgetary allocation causes unbalance development leading to economic underdevelopment in the northern part of the country. The paper concludes that for Nigeria to achieve holistic national development, resources must be equitably distributed. Specifically, we recommend inward-looking policies that could absorb the bunch of unemployed youth thereby enabling them to contribute their quota toward achieving national development shall be rigorously initiated and vigorously implemented.

Keywords: Budgetary allocation, national development, poverty, unemployment, equitable empowerment framework

Introduction

The ways government budgets are allocated have an important impact on economic development thereby bring government closer to the people (Gupta, Clements, Guen-siu and Leruth, 2001). Achieving equitable revenue allocation in Nigeria constitutes the perennial problems which have not only defied all past attempts at permanent solution, but also has a tendency for evoking high emotions on the part of all concerned (Ojo, 2010). It is an issue which has been politicized by successive administrations in Nigeria both military and civilian regimes. Indeed, in virtually all federations in which the constitution shares power between the central and regional or state governments and, for each level to be within a sphere co-ordinate and independent enough resources need be allocated to each tier to justify their existence (Wheare, 1963). Before the discovery of crude oil and the time when agriculture was the mainstay of the Nigerian economy, contending issues relating to derivation principle is silent in the revenue allocation. However, with the discovery of oil and the subsequent oil boom of the 1970s made Nigeria solely dependent on oil sector as a source of foreign exchange and neglected the traditional sector with hitherto accommodates over 70 per cent of the productive youth, in addition of being the source funding to the public authority.

In a country where its economy is dumped by foreign good as a result of absence of industrialization, the populace would always be watch dogging how the national pie is derived and shared among effortless federating entities. Accordingly, it will be an economic miracle to device an acceptable formula despite agitations here and there for an acceptable formula (Ogbole and Robert, 2012). Meanwhile, it is imperative to note that Nigeria's revenue sharing debates have revolved basically around three issues. Firstly, the relative proportions of federally collected revenues in the federation account that should be assigned to the centre, the states, the localities and the so-called 'Special Funds' (vertical revenue sharing); Secondly, the appropriate formulae for the distribution of centrally devolved revenues among the states and the localities (horizontal revenue sharing); Thirdly, the percentage of federally collected mineral revenue that should be returned to the oil-bearing states and communities on the account of the principle of derivation and compensation for the ecological risks of oil production (Ogbole and Rober, 2012).

In spite of huge revenue earned from both the usufruct of crude oil and the remittances made by Nigerian experts working in advanced countries, the country is mingled within the miniature of low human development countries. Smooth transition between military to civilian in 1999 made Nigerians to build up very high expectations that the budget would contain laudable programs that would lead to poverty reduction in particular and promote their welfare in general. However, concern seems to be growing among stakeholders regarding the ability of the budget to fulfil the policy objectives of the government and by implication satisfy the aspirations of the people (Olowola, 2012). This unwanted development appeals the attention of researchers to investigate the role of budgetary allocation in shaping economic development. The thrust of this study is therefore to examine the effect of budgetary allocation of national development. The paper is structured into five sections including this introduction which is section one. Section two review the conceptual framework, third section examines the constraints of budgetary allocation in Nigeria. Section three discusses the role of equitable budgetary allocation of national development while section four concludes the paper.

Conceptual framework

There is no unanimity among scholar about what constitutes the precise picture of National Development. In fact there are as many perceptions of it as there a scholar. For instance, Gboyega (2003) captures development as an idea that embodies all attempts to improve the conditions of human existence in all ramifications. It implies improvement in material well being of all citizens, not the most powerful and rich alone, in a sustainable way such that today's consumption does not imperil the future, it also demands that poverty and inequality of access to the good things of life be removed or drastically reduced. It seeks to improve personal physical security and livelihoods and expansion of life chances. Meanwhile, Naomi (1995) believes that development is usually taken to involve not only economic growth, but also some notion of equitable distribution, provision of health care, education, housing and other essential services all with a view to improving the individual and collective quality of life.

National Development is the ability of countries to improve the social welfare of the people through provision of social amenities like quality education, potable water, transportation infrastructure, medical care etc. National development therefore can be described as the overall development or a collective socioeconomic, political as well as religious advancement of a country or a nation (Lawal and Oluwatoyin, 2011).

Budget on the other hand, is an economic instrument for facilitating and realizing the vision of the government in a given fiscal year which could be achieved through national resource mobilization, allocation and economic management. According to Olowola (2012) budgetary process involves key stages such as budget conception, preparation, approval, execution, monitoring and control as well as budget evaluation. A good budget process must attain three important objectives; firstly, maintenance of fiscal discipline especially in terms of realistic expenditure proposals, realistic revenue projections, compliance with budget provisions, compliance with financial regulations (maintenance of strict financial management), timely release of funds and avoidance of undue fiscal imbalances; Secondly, attaining allocative efficiency; thirdly, attaining operational or technical efficiency.

Constraints of Budgetary Allocation in Nigeria

In a federal system of government, revenue allocation involves two schemes. The first is the vertical sharing between the federal or inclusive government and the other tiers of governments. The subject of these sharing schemes is the federally collected revenues. This is because the revenues generated within the jurisdictional areas of the units – states and local governments – are not subject to the national sharing formula (Ogbole and Robert, 2012).

The debate on Nigeria's fiscal federalism and relations hinges on the fundamental question of who gets what of the national cake, when and how. This is fundamental given that Nigeria as a monolithic economy gets over 80% of its revenue from crude oil, by virtue of the constitutional provision, this revenue must be disbursed to the three tiers of government. It also explains why the formula for revenue allocation has continued to be at the heart of public debate and why public office holders are hardly held accountable for the misuse of revenues derived from the national oil wealth. It is obvious that the nature and conditions of the financial relations in any federal system of government are crucial to the survival of such a system. A major source of intergovernmental disputes under a federal system centers on the problems of securing adequate financial resources on the part of the lower levels of government to discharge essential political and constitutional responsibilities (Olaloku, 1979). In all federations, there is always constitutional wrangling or how resources should be shared among the constituent units since there are always poor and relatively rich units for instance, in Nigeria, the poor units/regions/states often prefer a re-distributive system of federal resource while the richer or more endowed States are in favor of more financial autonomy and revenue allocation based on the relative contribution of each constituent units to the federal purse. In Nigeria revenue allocation largely implies the allocation of oil revenue, therefore, oil is central to the politics of intergovernmental fiscal relations thus, the contending forces over power and access to oil, extraction and accumulation of resources constitute the major conceptual issues that must be objectively confronted in seeking to understand the political economy of federalism in Nigeria and revenue allocation (Ogbole and Robert, 2012).

Budgetary Allocation and National Development of Nigeria

A budget has to be well-designed, effectively and efficiently implemented, adequately monitored, and its performance well evaluated (Olayide and Ikpi, 2010). With regard to Nigeria's budgets over the years, there is a sharp contrast between budgeting under military regimes and budgeting under civilian administration. Whereas the former was *ad hoc* and fraught with arbitrariness, the latter is often subjected to scrutiny at various stages of the executive and legislative arms of government before it is finally approved. Budgetary processes take place inevitably within the context of complex organizations, and thus vary from one political system to another (Mbanefoh, 1999)

The importance of budget in promoting economic development can be neither overemphasize nor underemphasize. Since the great depression of 1930s, the economic miracle used by Keynes to manipulate the public expenditure to salvage the world economy collapsing, Economist and policy-maker recognized the strength of public finance in achieving national development. The budgetary allocation could use among other things to eradicate any disequilibria in the economy. However, if repressed the entire economy is bound to experience difficulties in the form of poverty, unemployment, jobless growth, crises among others (Olomola, 2012; Ibrahim, 2012)

The Nigerian government laid down proactive process aimed at making the budget to act as an engine of growth. Accordingly, the constitution of the Federal Republic of Nigeria Section 162 stipulates that all federally-collected revenue should be paid into the Federation Account monthly and shared among the three tiers of government. These revenue components are made-up of oil and non-oil revenues. The oil revenues include proceeds from sales of crude oil and gas, Royalties, Petroleum Profit Tax, Rentals, Gas Flared and Miscellaneous oil revenue. The non-oil revenues include Company Income Tax (CIT), Import Duty, Excise Duty, Fees, tariffs, Customs Penalty Charges. The responsibility of sharing is discharged by the Federation Account Allocation Committee (FAAC) at its monthly meetings statutorily chaired by the Honorable Minister of State for Finance, with Honorable Commissioners for Finance and Accountant Generals of the 36 States, and the Director of Treasury represents the Federal Capital Territory (FCT) as members (NPC, 2011).

It should be noted that in order to ensure equitable parameters' for the sharing of the revenues to the three tiers of Government, an independent body was created by the constitution and named Revenue Mobilization Allocation and Fiscal Commission (RMAFC) to consider every factor affecting the share of each tier of Government and come up with an acceptable Revenue sharing formula for the Federation.

In the light of above, sharing the current formula is as follows:

(i) Federal Government of Nigeria (FGN) - 48.50%

-	Ecological	-	1. 00%
-	FCT	-	1. 00%
-	Stabilization Account	-	0. 50%
-	Development of National Resources	-	1. 68%
	Sub-total		**52. 68%**
(ii) State Governments		-	26. 72%
(iii) Local Governments		-	20. 60%
	Total: 100.0%		

Oil producing states (9 States) receive 13% derivation which is deducted up front.

Value Added Tax (VAT) is shared among the three Tiers of Government separately using a different formula as follows:

(i) FGN	-	15%
(ii) State Governments	-	50%
(iii) LGAs-		35%
Total: 100%		

The Excess Crude Account (ECA) which has now metamorphosed to Sovereign Wealth Funds (SWF) was created by FAAC to warehouse excess oil revenues over the predetermined budget benchmark price of crude oil. The policy is in line with the Fiscal Responsibility Act of 2007 and Government responsibility of managing the economy as one entity. It is very clear that the present sharing formula is skewed in the allocation of fund to states. Apart from the statutory allocation earmarked for each state of the federation equally, certain amount (13%) is set aside for oil producing in the name of derivation. This bad omen made some state especially in the northern part of the country to be operating from hand to mouth (gigantic recurrent expenditure and less for capital project).

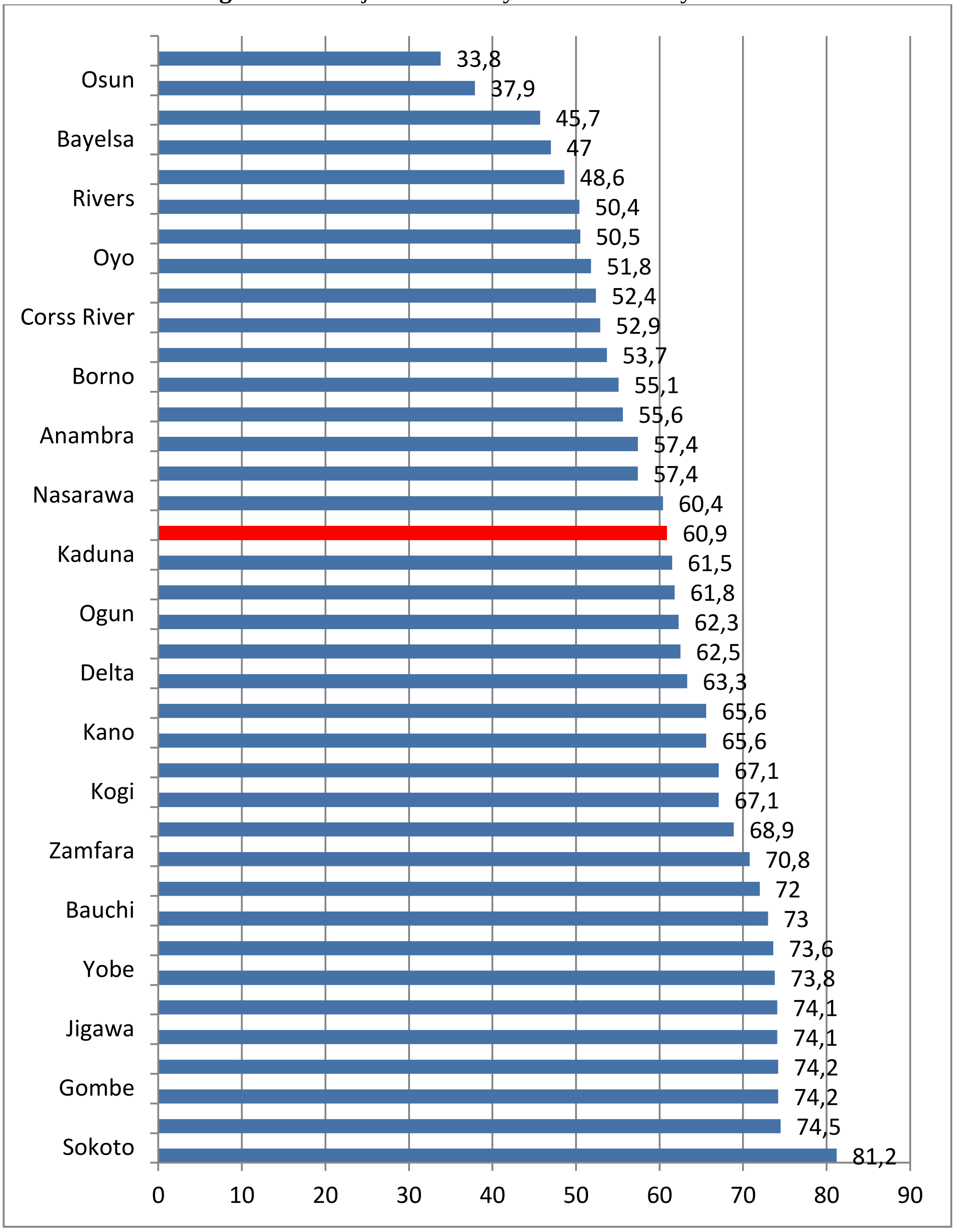
The replica of the imbalance revenue sharing formula is the existence of wide disparities among the federating units. This is clearly portrayed in 2007, statutory allocation ranged from N17.86 billion in Gombe state to N98.95 billion in Akwa Ibom state. In subsequent years (2008-2010), Gombe state continued to maintain the lowest rank while Akwa Ibom state received the highest followed closely by Delta state which is also an oil-rich state. The revenue (statutory allocation) trend follows a similar pattern in all the states with an increase from 2007 to 2008 followed by a general decline in 2009 and an increase in 2010. Statutory allocation rose to an all time high in 2010 in all the states. The oil-producing states are also highly rated in terms of internally generated revenue (IGR) but Lagos state topped the list right from 2007 to 2010. In 2007, the IGR ranged from N2.63 billion in Kwara state to N141.69 billion in Lagos state. Whereas Lagos state continued to maintain its lead in subsequent years, the states occupying the lowest position has been changing; from Taraba state (N1.00 billion) in 2008 to Niger state (N3.0 billion) in 2009 (a position shared with Zamfara state) and Zamfara state itself (N2.9 billion) in 2010. Some states such as Kwara, Kano, Gombe, Akwa Ibom, Delta and Oyo have been able to maintain an upward trend in their IGR over the period although for Delta and Oyo States there was a decline from 2009 to 2010. In Niger and Zamfara states, IGR trended downwards while in Taraba and Imo the trend has been haphazard (Akande, Olomola and Olokesusi, 2012). Apart from the problem of dwindling revenue accruable to some states, diversion of available revenue constitutes a major threat to their fiscal capacity. Some state governors have threatened to deal with civil servants found tampering with internally generated revenues or siphoning the revenues through dubious means. In general, the availability of revenue also depends on the level of indebtedness of states. Some debt repayments are deducted right from source implying that the net flow of the statutory allocation to the States concerned may actually not be adequate to meet their requirements for development financing. The revenue flow from this source is also characterized by frequent delays due to lateness in holding a Federation Account Allocation Committee (FAAC) meetings. This has adverse consequences on short-term finances of many state governments. In recent times many states are carrying out verification exercises of their accounting systems including staff audit and biometrics with the expectation that the savings made from personnel cost arising from the fraudulent practices discovered will be channelled to offset the shortfall in statutory allocations.

Even though there has been a substantial increase in both expenditures for the state in the country however discrepancies there exist. For instance in 2007, recurrent expenditure ranged from N9.79 billion in Niger state to N145.76 billion in Lagos state. Thereafter, the lowest recurrent expenditure was recorded in Anambra state for three consecutive years from 2008 to 2010 during which time Lagos state continued to be the greatest spender except in 2010 when Delta state (oil producing state) recorded the highest recurrent expenditure of N116.53 billion. The standing of the states with regard to capital expenditure is different. Lagos state was the greatest spender in 2007 whereas for three consecutive years from 2008 to 2010, Akwa Ibom state (oil producing state) recorded the highest capital expenditure.

Throughout the period, Niger state recorded the least capital expenditure annually from 2007 to 2010. Overall, total government expenditure in Lagos state was the highest from 2008 to 2010 followed by Akwa Ibom and Delta states; while Anambra state recorded the lowest total government expenditure for the three consecutive years.

The repercussion of the differences in the revenue and expenditure among the state further reflect in the form of high incidence of poverty to the state receiving less statutory allocation. This is shown in the chart below:

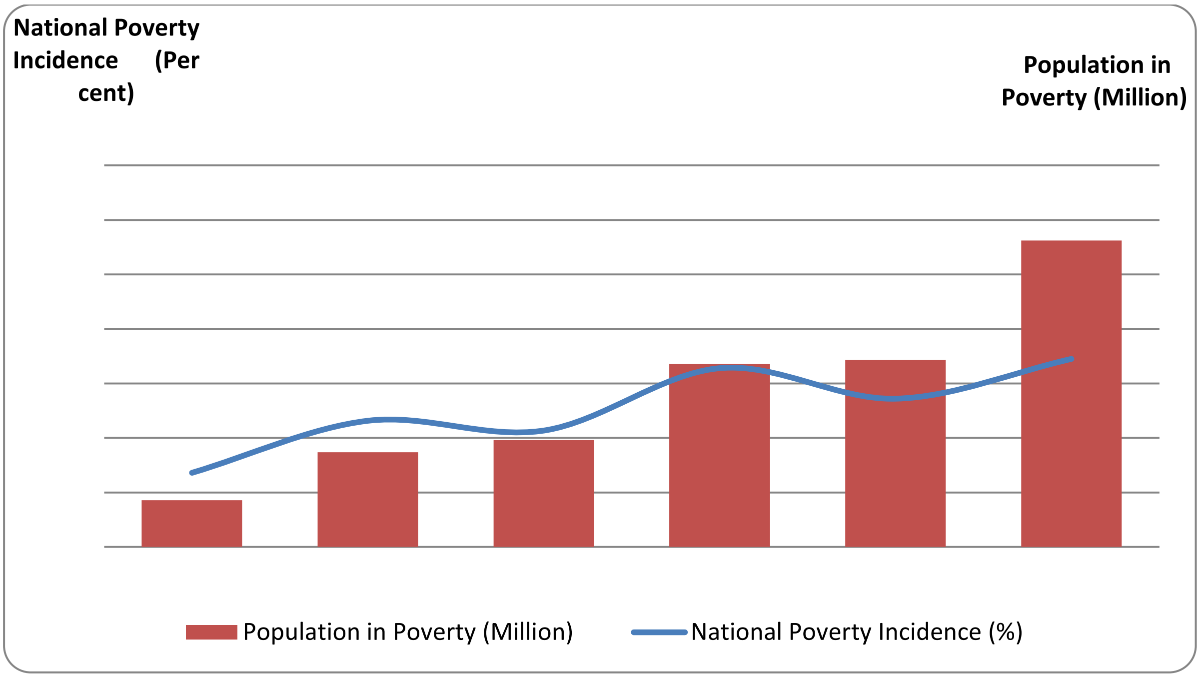
Figure 2.3: Subjective Poverty Measurement by States



Source: NBS 2012

It could be discerned from the above chart Sokoto State had the largest population of poor people in absolute terms (81.2%), followed by Katsina and Gombe States with 74.5%

and 74.2% respectively. Niger State had the lowest absolute poverty rate of 33.8%, followed by Osun and Ondo with 37.9% and 45.7% respectively.



Source: NBS, 2012

Poverty prevalence varies across the geopolitical zones in the country in which zone with the relative low budgetary allocation. Relative poverty rates in the North Central, North East, and North West were 67.5%, 76.3% and 77.7% in 2010 respectively. Similarly, relative poverty was 67.0%, 63.8% and 59.1% respectively in the South-East, South-South and South-West in 2010, indicating that the majority of the poor was residing in the Northern part of the country, particularly in both the North-West and North-East where the relative poverty rate was above the national average of 69.0% of the population. This could be attributed to a host of factors including, skewed budgetary allocation, insecurity challenges faced particularly in the Northern zones that have negatively impacted on the business environment drought in the Sahel sub-region particularly in Chad and Niger Republic. In addition, inadequate efforts on the part of government to improve the lot of the people especially in the provision of infrastructure, education and health services and socioeconomic opportunities have also contributed to the situation.

Conclusion

This study made modes attempt to review the practices of Nigeria's budgetary allocation and its impact on the national development. The present practice that laid much emphasis on the derivation of the revenue is not helping the system. This is based on the fact that many states outside the cluster of derivation were receiving very minimal statutory budgetary allocation despite they are relatively densely populated with the resulting preponderance of poverty, high disguised unemployment, economic insecurity, crises and so on. Therefore, for Nigeria for Nigeria to achieve holistic and sustainable national development, resources must be equitably distributed. Specifically, we recommend for the adoption of the New Equitable Empowerment Framework whereby priorities would be placed on the untapped resource in the other areas (state) excluded from derivation with the objective of augmenting their budgetary allocation to match them on the similar financial strength with states enjoying more of the national pie. This is yielding fruitful results in Namibia and it is expected to yield the same for Nigeria. However, in pursuing developmental policies, efforts should be made towards results-oriented and evidence-based so that it could achieve the targeted objectives.

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