

# Financing Nigeria's Cities

## Introduction

Nigeria's rapid urban expansion has not yet found sufficient financing for the urban public goods and services needed to develop strong economies that create jobs. This chapter therefore focuses on the financing of public goods and services in larger urban centers (cities)—simply defined as relatively densely populated settlements with more than 300,000 people. Table 1.1 in chapter 1 lists the cities in all size classes that are projected to grow—42 of them in Nigeria, and most but not all state capitals.

It also looks at how and by whom financing is (or might be) mobilized and deployed, and what the challenges and opportunities are (or have been) in effectively and efficiently using such funds to “deliver the goods.”

Some assumptions and qualifications need to be outlined, as major “known unknowns” and limitations exist in any data on urban finance in Nigeria.

First, detailed and robust financial and fiscal data are not always available, especially at the subnational level. Publication and disclosure of state government financial statements and reports is not, as yet, the norm; most Nigerian states do not regularly publish or make their financial reports or statements available. Federally, information on state government finances is available, but it is understandably not very disaggregated. At the federal and subnational levels, information about local government finance is even harder to access.

Second, information on subnational finance does not distinguish between urban and other revenues and expenditures: no specifically urban local government units exist in Nigeria<sup>1</sup> and finance data generally refer to state or local government jurisdictions as a whole. Sector-based analyses and information also tend to blur the distinction between specifically urban and general dimensions. This lack of clarity makes it difficult to analyze urban-based (as opposed to statewide, rural, or semirural) revenues, expenditures, and borrowing.

In addition, the primary focus on cities with a population of over 300,000 is based on a threefold rationale:

- These larger urban centers account for just over 50 percent of the country's urban population.<sup>2</sup>

- They include most state capitals and are almost all made up of more than one local government jurisdiction.
- These cities and towns typically have much higher population densities than smaller settlements.

Such cities are also very heterogeneous—not only in size, with Lagos as the singularly dominant metropolis, but also in other terms. While many are state administrative capitals, and thus include a substantial number of resident public servants, some are semi-industrial cities, a few are service-based or financial centers, others are the servicing centers for large and predominantly rural hinterlands, and others are university towns.

Some cities are located on major corridors and thrive as transport hubs; others are less connected to larger economic networks. Although all Nigerian cities have lively informal sectors and operate on the basis of informal institutional arrangements (for land tenure and housing, in particular), informality is more marked in some than others. Although all Nigerian cities face common challenges, they do so to different degrees. They also vary greatly in the resources they—or more accurately their respective states—can bring to the table.

### **State and Local Government in Nigeria**

Nigeria's 1999 constitution provides for a three-tier governmental system: a federal government,<sup>3</sup> 36 state governments, and 774 local governments (often referred to as local government areas [LGAs]).

Each of the three tiers has constitutionally defined powers, rights, and responsibilities; and each tier includes an elected assembly or council (in the case of LGAs), endowed with legislative powers. The constitution explicitly specifies the names of all states and local governments. Together, the state and local government levels make up subnational government in Nigeria. Table 4.1 provides basic statistical data on state and local government populations.

States and local governments employ many people. In 2005, states and LGAs (with a combined total of about 1.16 million employees) accounted for almost 65 percent of all civilian public servants in Nigeria (USAID 2010a).

A number of important aspects of Nigeria's subnational government system need to be highlighted:

- Despite protestations to the contrary, state governments enjoy remarkable administrative autonomy relative to the federal government. While the constitution can be interpreted as formally giving the federal government strong and centralized powers, in practice states tend to operate with a great deal of latitude. In public financial and expenditure management, states operate independently of the federal government.
- State governments are constitutionally empowered to legislate on local government issues, provided that any such legislation is consistent with broad

**Table 4.1 Basic Demographic Data: States and Local Governments in Nigeria (Largest States by Population)**

<i>State</i>	<i>State capital</i>	<i>No. of local governments</i>	<i>Population</i>	<i>Population density (per km<sup>2</sup>)</i>	<i>Percent of total national population</i>	<i>Surface area (km<sup>2</sup>)</i>
Kano	Kano	44	9,383,682	460	6.7	20,389
Lagos	Ikeja	20	9,013,534	2,594	6.4	3,475
Kaduna	Kaduna	23	6,066,562	137	4.3	44,217
Katsina	Katsina	34	5,792,578	243	4.1	23,822
Oyo	Ibadan	33	5,591,589	207	4.0	27,036
Rivers	Port Harcourt	23	5,185,400	500	3.7	10,361
Bauchi	Bauchi	20	4,676,465	97	3.3	48,197
Jigawa	Dutse	27	4,348,649	186	3.1	23,415
Benue	Makurdi	23	4,219,244	137	3.0	30,755
Anambra	Awka	21	4,182,032	878	3.0	4,761
Borno	Maiduguri	27	4,151,193	57	3.0	72,767
Delta	Asaba	25	4,098,391	240	2.9	17,095
Niger	Minna	25	3,950,249	55	2.8	72,065
Imo	Owerri	27	3,934,899	766	2.8	5,135
Akwa Ibom	Uyo	31	3,920,208	578	2.8	6,788
Ogun	Abeokuta	20	3,728,098	221	2.7	16,850
Sokoto	Sokoto	23	3,696,999	115	2.6	32,146
Ondo	Akure	18	3,441,024	229	2.5	15,019
Osun	Oshogbo	30	3,423,535	399	2.4	8,585
Kogi	Lokoja	21	3,278,487	113	2.3	29,063
Zamfara	Gusau	14	3,259,846	97	2.3	33,667
Enugu	Enugu	17	3,257,298	431	2.3	7,560
Kebbi	Birnin Kebbi	21	3,238,628	89	2.3	36,320
Edo	Benin City	18	3,218,332	164	2.3	19,584
Plateau	Jos	17	3,178,712	120	2.3	26,539
Adamawa	Yola	21	3,168,101	83	2.3	37,957
Cross River	Calabar	18	2,888,966	131	2.1	22,112
Abia	Umuahia	17	2,833,999	583	2.0	4,857
Ekiti	Ado-Ekiti	16	2,384,212	411	1.7	5,797
Kwara	Ilorin	16	2,371,089	70	1.7	33,792
Gombe	Gombe	11	2,353,879	135	1.7	17,428
Yobe	Damaturu	17	2,321,591	52	1.7	44,880
Taraba	Jalingo	16	2,300,736	39	1.6	59,180
Ebonyi	Abakaliki	13	2,173,501	343	1.6	6,342
Nassarawa	Lafia	13	1,863,275	70	1.3	26,633
Bayelsa	Yanagooa	8	1,703,358	182	1.2	9,363
FCT	Abuja	6	1,405,201	186	1.0	7,569
	<b>Total</b>	<b>774</b>	<b>140,003,542</b>	<b>154</b>	<b>100.0</b>	<b>911,521</b>

Source: CLGF 2013.

Note: FCT = Federal Capital Territory; km<sup>2</sup> = square kilometers.

constitutional provisions about local government. This *de jure* dominance of LGAs by their respective state governments is largely exercised in practice—in political, administrative, and fiscal terms. The clearest demonstration of this fact is the near universal state practice of appointing unelected caretaker LGA chairs and councils, rather than overseeing local government elections.

**Table 4.2 Population Size of Nigerian States and Local Governments**

<i>States</i>		<i>Local governments</i>	
<i>Population</i>	<i>36 States + Abuja FCT</i>	<i>Population</i>	<i>774 LGAs</i>
Mean	3,783,880	Mean	180,650
Median	3,423,535	Median	157,295
Max	9,383,682	Max	1,277,714
Min	1,405,201	Min	20,253

*Source:* National Bureau of Statistics, 2006 Census.

*Note:* FCT = Federal Capital Territory; LGAs = local government areas.

- In comparison to the lowest tier of subnational government in other countries, Nigerian local governments cover relatively large populations.<sup>4</sup> As tables 4.1 and 4.2 show, most LGAs in Nigeria (as of the 2006 census) have a population of around 160,000. Some are very large, with a population exceeding 1,000,000. The relatively large size of Nigerian LGAs suggests that they would be viable self-governing service delivery units. However, in practice, LGAs tend to operate as deconcentrated extensions of their respective state governments.
- No constitutional distinction is made between rural and urban local governments. No Nigerian municipalities exist with a specific mandate (or specific functions) to provide public goods and services in cities or towns. An LGA in an urban area has exactly the same functions, powers, and responsibilities as an LGA in a rural area. Nor is it constitutionally possible for state governments to independently legislate municipalities (as local governments) into existence—for such municipalities to be recognized as such requires a constitutional amendment.
- No subnational governments—such as metropolitan governments—exist between states and local governments. Major cities such as Lagos or Ibadan are made up of the jurisdictions of several autonomous LGAs and are not managed as city corporations. While it is formally possible for states—or indeed cooperating LGAs, with state approval—to establish coordinating or planning authorities for cities,<sup>5</sup> these cannot (for constitutional reasons) be recognized or considered as municipal governments with their own “fiscal” or administrative identity. By default, state governments assume the role of city managers, alongside all their other functions.
- In fiscal terms, almost all state and local governments rely heavily on their respective allocations from (or shares of) the taxes and other revenues pooled and collected by the federal government. That said, states (but not LGAs) enjoy almost complete discretionary powers over the use they make of their federally derived revenues, in much the same way as they do with respect to

their own-source revenues (known as internally generated revenues [IGRs]). Conditional or earmarked grants and transfers from the federal government to the states, on the other hand, are few and far between.

- Because 75 percent of federally collected revenues are derived from oil and gas revenues (Litwack 2013), all three tiers of government are highly vulnerable to fluctuations in world energy prices. As the price of oil and gas rises or falls, so too does the size of the fiscal funding pool in which each tier of the inter-governmental system has a share. In principle, the Excess Crude Account (fiscal reserve) is intended to iron out major fluctuations in the revenues shared out to the three tiers of government; in practice and for a variety of reasons, the fiscal reserve has not been able to do so. As a result of subnational government dependence on their shares of the federal revenue pie, state and local governments can see their overall revenues and budgets fall substantially if and when oil and gas prices drop (as is currently the case).

In summary, Nigeria's subnational governance system can be characterized as dominated by relatively strong and autonomous state governments, weak and often electorally unaccountable local governments, and devoid of any meaningfully empowered city or intermediary authorities. Fiscally, the subnational government system as a whole relies heavily on revenue-sharing allocations from a federally collected funding pool, which varies in size with fluctuations in world energy prices.

## Financing Nigeria's Urban Development

Meeting Nigeria's urban development challenges will need substantial financing.

### *Urban Infrastructure Investments*

Although Nigeria has relatively advanced power, road, rail, and information and communication technology networks that cover extensive areas of its territory, a good deal more needs to be done to bring the stock of infrastructure up to a satisfactory level and to keep it there in both coverage and quality. For this task, development financing needs in the country are considerable.

African Development Bank (2013) estimates that infrastructure investments (and related expenditure)<sup>9</sup> across a broad, nationwide spectrum of sectors for 2011–20 need to be in the order of US\$350 billion to meet the objectives set out in the government's medium-term Vision 20:2020. According to the report, spending on infrastructure amounted to 4.6 percent of gross domestic product (GDP) in 2011, should peak at 12.6 percent in 2016, and should then decline steadily to about 9.6 percent by 2020. Of this, about US\$193 billion will be needed for *publicly* owned infrastructure and US\$92 billion for *privately* owned infrastructure (such as power generation and distribution networks, communications networks, and so on).

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#### **Box 4.1 Urban Transport and Water Supply: Investment Needs and Costs**

Nigeria's growing cities, especially the larger agglomerations, underlie the need for significant investments in urban public transport infrastructure and services. From 2011 to 2020, it is estimated demand will increase by 5.2 million public transport trips per day. To address this rise, the African Development Bank projects the need for, among other things:

- Repairing and rehabilitating approximately 30,000 kilometers of urban and tertiary roads
- Paving and upgrading almost 15,000 kilometers of urban and tertiary roads
- Developing mass transit train and bus systems.

In all, investments of around US\$40 billion in urban public transport infrastructure will be needed during 2011–20.

Rapid annual urban population growth has made it difficult for Nigeria's state water agencies—frontline service providers in the urban water sector—to meet the existing need for piped water and expand production capacity. From 2004 to 2013, while Nigeria's urban population grew from 38 percent of the total to 46 percent, urban access to improved water sources stagnated at 79 percent. Growing numbers of Nigerians living in urban areas face water scarcity as a result. Old and dilapidated piping systems are subject to frequent leakage, and newly built ones often have no water due to intermittent power supply. The African Development Bank estimates the cost of upgrading and improving urban water supply will be around US\$13 billion during 2011–20.

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Although the federal government will need to mobilize much of the finance required for upgrading or rehabilitating public infrastructure, subnational governments will also need to play a role. Assuming subnational public infrastructure investments need to cover about 25 percent of all spending on public infrastructure,<sup>7</sup> this amounts to approximately US\$50 billion during 2011–21.

A significant proportion of subnational infrastructure financing will need to be targeted at investments in urban infrastructure, given that at least 50 percent of Nigeria's population is urban and that urban infrastructure typically requires more finance than rural infrastructure. An important, but unquantifiable share of federal infrastructure spending will also need to be urban. But this is an extrapolation, given that there are few specific estimates for urban infrastructure and investment needs. A more precise idea of the scale of financing required in the urban transport and urban water supply sectors is provided in box 4.1.

Although data and assessments for other urban sectors and services (such as solid waste management and housing) are not readily available, it is clear that these will also require substantial infrastructure investment to meet growing demand in cities and towns.

### ***Other Investments and Spending on Urban Development***

Although less often considered as part of urban development finance, need is growing for investments in institutional reform and capacity development and for budgetary commitments to financing operations and maintenance. Overall costs for these types of expenditure in urban areas are hard to come by—but the need to finance these costs is clear and should be factored into any overall assessment of urban finance.

### ***Institutional Capacity Development***

The urban water sector is a striking example of the need for investments in institutional reform and capacity development, as well as in new and upgraded infrastructure. The recently approved Third National Urban Water Sector Reform Project, for example, is predicated on the need for upfront institutional reforms as a prelude to further infrastructure investments. Having the right institutional framework in the urban water supply sector is an essential element underlying any coverage, quality, and value-for-money improvements of urban water supply systems, as box 4.2 illustrates.

Institutional reforms and capacity development do not come cheap. For example, 15 percent of the total budget for the new urban water supply project (which directly impacts upon three states and indirectly impacts upon nine other states) is earmarked for reform and capacity development activities. This quantum of “software” financing is probably valid across all urban infrastructure and service delivery sectors.

The need for supporting institutional capacity development and reforms is also implicitly borne out by the World Bank’s Development Policy Operation loans to Lagos State government and to Edo State government (a major part of whose jurisdiction includes Benin City). All of these represent significant levels of budget support (and much of which has been or is likely to be used to finance

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#### **Box 4.2 Investing in the Urban Water Supply Sector: Institutional Reforms and Capacity Development Needs**

“Previous interventions by Government and development partners have largely focused on addressing...physical infrastructure aspects, which alone cannot fully address the service delivery needs in a sustainable manner, unless combined with sector reforms to provide the enabling environment for sustaining services...[A]ttention has begun to shift towards addressing more institutional and governance issues such as reform of policies and legislation in combination with the physical investments ... significant challenges remain and there is a need for a sustained focus on both strategic investments and reforms at state level to meet the country’s development goals.”

*Source:* World Bank 2014d.

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the states' ambitious infrastructure development programs), linked to benchmarked progress in local public sector management reforms (World Bank 2012, 2014c). Underlying these state-level Development Policy Operations is a clear recognition of the need to finance both infrastructure and hardware improvements and, at the same time, to finance (or leverage) a steady package of agreed reforms and capacity development initiatives.

### ***Operations and Maintenance***

Nigeria is far from alone in underplaying the importance of financing operations and maintenance for its existing stock of public infrastructure—this is common to many developing and developed countries.<sup>8</sup> Past failures to spend enough and effectively on operations and maintenance simply result in deteriorating infrastructure and—ultimately—more costly investments in major rehabilitation or reconstruction. While the situation at the federal level is cause for concern, it is even more so at the subnational level (see box 4.3 on roads).

Urban service delivery also requires operational expenditures. Effective solid waste management in cities relies on regular financing of labor and operating costs. For example, recurrent costs accounted for almost one-third of the 2013 budget estimates for Oyo State's solid waste management authority, which is most active in the state's cities and larger towns (Ogunbuyi 2013). This amount excludes recurrent spending covered by cost recovery on the part of private service providers.

Although no information is readily available on the costs of operating and maintaining Nigeria's current and future stock of urban infrastructure, good grounds exist for assuming that the consequences of not meeting such costs are likely to be considerable. In the roads sector, for example: "... *rehabilitating* paved roads every 10 to 20 years is more than *three times as expensive*, in cash terms, as maintaining them on a regular basis.... *Rehabilitating* gravel roads

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#### **Box 4.3 Subnational Road Maintenance in Nigeria**

Road maintenance problems are much more severe at the subnational level (World Bank 2011). Road condition indicators for the entire national network are much worse than for the federal network. Only 67 percent of paved roads (as a whole) are in good or fair condition. Even more worrisome, only 33 percent of unpaved roads—all the responsibility of subnational governments and a good proportion in urban areas—are in good or fair condition. Road maintenance is not adequately funded or implemented at the subnational level. The World Bank report estimates that the annual maintenance and rehabilitation requirement for the subnational road network is around US\$500 million, or about the same as that for the federal network. The maintenance of urban roads accounts for an important but unquantifiable share of this amount.

*Source:* World Bank 2011.

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every 10 years is *twice as expensive*, in cash terms, as regular routine and periodic maintenance..." (Heggie 1995). In other words, while meeting new capital financing needs in Nigeria's cities is necessary, it should not be allowed to detract from the need for financing operations and maintenance of existing and future urban infrastructure—and the costs of this need adds considerably to overall funding requirements.

### Summing Up

The public financing needs of Nigerian cities are already considerable, and will only increase as they develop and grow. Capital financing is high on the list of spending priorities, but needs to be matched by investments in institutional capacity development and by funding of operations and maintenance costs if new infrastructure and equipment is to be productive and to deliver urban services on a sustained and cost-effective basis. Putting all this together will be a formidable challenge.

**Table 4.3 Public Expenditure in Nigeria, 2009–13**

Item	Naira (billions)				
	2009	2010	2011	2012	2013
<b>Federal government</b>					
Recurrent expenditure	2,127.97	3,109.38	3,314.51	3,325.16	3,689.06
Capital expenditure	1,152.80	883.87	918.55	874.83	1,108.39
Capital as % of total federal government expenditure	35.14	22.13	21.70	20.83	23.10
<b>Subtotal</b>	<b>3,280.77</b>	<b>3,993.25</b>	<b>4,233.06</b>	<b>4,199.99</b>	<b>4,797.45</b>
As % of total expenditure	46.04	46.35	45.00	43.34	44.76
<b>State governments</b>					
Recurrent expenditure	1,426.10	1,648.40	2,055.70	1,664.40	1,723.90
Capital expenditure	1,284.20	1,522.40	1,375.20	1,965.30	2,220.00
Capital as % of total state governments expenditure	46.25	46.61	38.84	51.11	53.97
Others (deductions)	66.60	95.40	110.00	215.40	169.20
<b>Subtotal</b>	<b>2,776.90</b>	<b>3,266.20</b>	<b>3,540.90</b>	<b>3,845.10</b>	<b>4,113.10</b>
As % of total expenditure	38.97	37.91	37.65	39.68	38.38
<b>Local governments</b>					
Recurrent expenditure	704.60	823.70	1,279.80	1,345.50	1,414.00
Capital expenditure	363.00	533.00	352.10	299.40	392.90
Capital as % of total local governments expenditure	34.00	39.29	21.58	18.20	21.74
<b>Subtotal</b>	<b>1,067.60</b>	<b>1,356.70</b>	<b>1,631.90</b>	<b>1,644.90</b>	<b>1,806.90</b>
As % of total expenditure	14.98	15.75	17.35	16.98	16.86
<b>Total</b>	<b>7,125.27</b>	<b>8,616.15</b>	<b>9,405.86</b>	<b>9,689.99</b>	<b>10,717.45</b>
	100.00	100.00	100.00	100.00	100.00
Expenditure as % of nominal gross domestic product	28.70	15.90	14.90	13.60	13.40

Source: Central Bank of Nigeria Data and Statistics.

## Expenditure

### *Expenditure Patterns*

Between them, states and local governments have regularly accounted for over 50 percent of all public expenditure in Nigeria over the last decade or so. Since 2010, subnational government spending has amounted to around 7 percent of GDP (table 4.3). Whichever way you look at it, subnational public expenditure is important.<sup>9</sup>

On aggregate, about 35 percent of total public expenditure is spent on capital items. State governments are the biggest capital spenders—both relatively (spending roughly 50 percent of their total expenditure on capital) and absolutely (usually spending more on capital items than the federal and local government tiers taken together).

The local government tier is the least focused on capital expenditure—spending less than either the federal or state government levels on capital items and usually allocating a smaller proportion of its spending to capital expenditure than the other tiers do. In absolute per capita terms, state governments, on average, spend almost six times more than local governments on capital items (tables 4.4–4.7).

On capital expenditure, there is a good deal of variation between states and between local governments (tables 4.4–4.7).

Among state governments, Jigawa, Akwa Ibom, and Rivers stand out: in each, capital spending represented over 80 percent of all public expenditure.<sup>10</sup> In addition, Rivers and Akwa Ibom states were the largest per capita spenders on capital, followed by Bayelsa and Lagos.<sup>11</sup>

At the bottom of the league of capital spenders are Imo, Kano, and Niger states, each devoting less than 20 percent of total expenditure to capital spending. They are also the lowest capital spenders in absolute per capita terms. Most states, however, spend a little under 50 percent of their total expenditure on capital items.

The local governments that spend the highest proportion (over 40 percent) on capital items are those in Kebbi, Yobe, and Zamfara states. Equally, they were the biggest per capita spenders.<sup>12</sup>

The local governments spending the least capital (proportionate to total expenditure) were in Ogun, Bauchi, and Imo states; they were also, in absolute per capita terms, the LGAs that spent the least on capital. LGAs in most states spend roughly 20 percent of their total expenditure on capital items.

Levels of state and local government spending on operations and maintenance of infrastructure are difficult to determine—partly because detailed information on expenditure is not available, and partly because it is unclear as to whether maintenance spending is systematically classified and recorded as recurrent or capital.

As can be seen from tables 4.4 and 4.6, total spending by state and local governments is considerable in absolute terms. In 2013, total subnational spending amounted to about US\$29.6 billion,<sup>13</sup> of which just over US\$13.0 billion was on

**Table 4.4 State Government Capital Spending as Percentage of Total Expenditure, 2013**

<i>State government</i>	<i>Capital spending as % of total expenditure</i>	<i>Capital spending per capita (Naira)</i>
Abia	48.14	12,773
Adamawa	53.03	15,751
Akwa Ibom	84.26	67,981
Anambra	69.68	12,147
Bauchi	58.00	13,258
Bayelsa	34.16	34,109
Benue	49.58	9,907
Borno	51.56	9,539
Cross River	49.37	13,569
Delta	38.52	20,764
Ebonyi	64.16	21,164
Edo	37.71	12,584
Ekiti	39.20	13,170
Enugu	50.09	8,934
Gombe	49.03	17,248
Imo	10.76	1,372
Jigawa	85.70	18,328
Kaduna	47.32	7,434
Kano	13.17	2,217
Katsina	56.29	8,425
Kebbi	69.55	18,619
Kogi	59.19	10,706
Kwara	53.23	17,376
Lagos	66.08	28,945
Nassarawa	27.52	9,660
Niger	19.18	2,607
Ogun	28.78	3,782
Ondo	30.92	8,457
Osun	23.61	6,076
Oyo	57.58	7,815
Plateau	45.96	12,898
Rivers	80.32	72,588
Sokoto	21.24	2,786
Taraba	56.97	18,820
Yobe	60.89	14,688
Zamfara	24.16	5,276
Federal Capital Territory	60.46	33,945

*Source:* Central Bank of Nigeria Data and Statistics.

**Table 4.5 State Government Capital Expenditure, 2013**

<i>Measure</i>	<i>Capital spending as % of total expenditure</i>	<i>Capital spending per capita (Naira)</i>
Mean	47.98	16,101
Median	49.58	12,773
Maximum	85.70	72,588
Minimum	10.76	1,372

*Source* : Central Bank of Nigeria Data and Statistics.

**Table 4.6 Local Government Capital Spending, 2013**

*(percent of total expenditure)*

<i>LGs in state</i>	<i>Capital spending as % of total expenditure</i>	<i>Capital spending per capita (Naira)</i>
Abia	10.20	1,274
Adamawa	19.47	2,800
Akwa Ibom	11.61	1,786
Anambra	20.53	2,205
Bauchi	6.73	806
Bayelsa	23.35	2,659
Benue	20.80	2,775
Borno	35.30	5,035
Cross River	16.26	2,167
Delta	11.48	1,701
Ebonyi	35.07	4,647
Edo	20.63	2,430
Ekiti	10.29	1,351
Enugu	32.72	3,727
Gombe	11.35	1,389
Imo	8.30	1,100
Jigawa	18.31	2,412
Kaduna	11.03	1,129
Kano	24.05	2,616
Katsina	18.37	2,289
Kebbi	53.12	8,053
Kogi	11.18	1,592
Kwara	22.11	3,403
Lagos	32.59	3,547
Nassarawa	18.32	3,097
Niger	32.89	4,605
Ogun	3.85	456
Ondo	21.03	2,383
Osun	29.32	4,685
Oyo	17.71	2,202
Plateau	17.49	2,124
Rivers	12.16	1,304
Sokoto	29.56	4,030
Taraba	24.00	4,307
Yobe	50.88	9,468
Zamfara	40.81	5,095
FCT	13.43	2,562

*Source* : Central Bank of Nigeria Data and Statistics.

*Note*: FCT = Federal Capital Territory; LGs = local governments.

**Table 4.7 Local Government Capital Expenditure, 2013**

<i>Measure</i>	<i>Capital spending as % of total expenditure</i>	<i>Capital spending per capita (Naira)</i>
Mean	21.52	2,952
Median	19.47	2,430
Maximum	53.12	9,468
Minimum	3.85	456

*Source:* Central Bank of Nigeria Data and Statistics.

capital items. A lot of public money, then, is being spent at the subnational level: the key to assessing its contribution to meeting real needs and addressing priorities is in the ways that subnational governments spend and how effectively and efficiently they do so.

How much state and local government spending is focused on urban infrastructure and services? Unfortunately, available information on subnational public expenditure does not readily lend itself to an assessment of spending in urban areas. In highly urbanized states, it might be assumed that most (if not all) subnational government expenditure was essentially urban; however, this is misleading, simply because state governments spend on items (such as their legislatures, judiciaries, and regulatory services) that would not normally be considered “urban” public goods and services. Nonetheless, given Nigeria’s urban population, it is probably safe to assume that overall subnational spending in cities amounts to a similar proportion of total expenditure.

### ***Functional and Expenditure Assignments***

The constitution provides a broad framework for functional (or expenditure) assignments across the three tiers of government, as table 4.8 shows. In addition, the Fourth Schedule of the constitution provides a more detailed listing of local government functions: these are broadly consistent with the wider framework, but also include local government revenue assignments. Additional local-government-specific functions are included in table 4.8.

In general, the constitutional assignment of functions and responsibilities to the three tiers of government is consistent with internationally accepted federal principles. But, and as with many such assignments of functions across tiers of government, room exists for overlap and duplication, and provisions are subject to interpretation.

Functional assignments are clearer in some sectors than others. Formal responsibilities in the Nigerian roads sector, for example, are shared but relatively well-defined and discrete for each tier of government, as box 4.4 illustrates.

In other sectors, however, assignments are somewhat more ambiguous. The health sector provides a trenchant illustration, as box 4.5 shows.

Another sector in which functional and expenditure assignments often lack clarity is education, as illustrated in box 4.6.

**Table 4.8 Constitutional Assignment of Functions across Tiers of Government**

<i>Assignment</i>	<i>Federal</i>	<i>State</i>	<i>Local</i>
Defense	National defense		
Foreign affairs	Diplomatic and consular missions, international treaties, foreign policy		
Public order	National police, security services, prisons	State public order	
Trade and commerce	Commercial policy, banking, insurance, bankruptcy, international trade, interstate trade	Intrastate trade and commerce	Local markets, slaughter houses, local economic development
Natural resources	Mines and mineral, including oil and gas surveying and mining	Natural resource development other than minerals	
Agriculture and fisheries	Promotion of agricultural research and production, fishing rights	State agricultural development	Local agriculture development
Health	Federal health policy	State health policy	Local health services
Education and science	University and professional education, scientific and technological research, national statistics	Regulation of primary education, provision of post-primary education, university and professional education, scientific and technological research	Provision and maintenance of primary school and vocational training
Transportation networks and public transportation	Aviation policy and airports, railways, federal highways	State highways, public transit	Local roads and highways, local public transit; construction and maintenance of roads, streets, street lightings, drains, and other public highways, parks, gardens
Solid waste management and sanitation			Public conveniences, sewage and refuse disposal
Vital registration			Registration of all births, deaths, and marriages

*Source:* Boex and Alm 2002; 1999 constitution.

*Note:* The constitution is curiously silent about the assignment of responsibilities for water supply. These are assigned through the National Water Supply and Sanitation Policy (2000).

Unfortunately, readily accessible data on aggregate expenditure patterns at the state and local government levels do not provide a clear indication of the extent to which formal expenditure assignments across sectors are translated into practice.

### ***Subnational Functional Assignments and Spending on Urban Public Goods and Services: Principles and Practice***

Unlike many (or most) other countries, Nigeria has no municipal or metropolitan governments; the constitution simply makes no provision for urban subnational governments. No unit of governance and coordination exists at the city or

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**Box 4.4 The Allocation of Functional Responsibilities in the Roads Sector**

In principle, the responsibilities of each tier of government in the roads sector mirror the classification of roads themselves:

Trunk A roads (about 33,000 kilometers in total) cut across regional and state boundaries, extend to the international borders with neighboring West African countries, and make up the national road grid. Trunk A roads are under the federal government's ownership and are thus designed, constructed, maintained, and financed by the federal government through the Federal Ministry of Works. The Federal Road Maintenance Agency is in charge of carrying out maintenance of this class of roads.

Trunk B roads (about 50,000 kilometers) are the second category of main roads in Nigeria, linking major cities within states with their state capitals. State governments design, develop, finance, and maintain them through their ministries of works, transport, or infrastructure.

Trunk C roads (117,000 kilometers) are local feeder roads, are typically not asphalted or usable all year, and link villages and communities. The works departments of local governments maintain and construct these.

*Source:* Federal Ministry of Works 2013.

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**Box 4.5 Functional and Expenditure Assignments in the Health Sector**

The delivery of public primary health care is the formal responsibility of local government areas (LGAs) and their respective departments of health. LGAs, for the most part, own and fund the facilities. Secondary (and some tertiary) health care, which includes several types of hospital, is the responsibility of state governments and state ministries of health. Finally, the Federal Ministry of Health is responsible for teaching hospitals in federal universities, federal medical centers, and specialized tertiary-level health care facilities.

However, public expenditure streams for the three levels of government are largely uncoordinated. In some states, the federal government funds and operates model primary care facilities overseen by national primary health care agencies. Federal, state, and local allocation and expenditure decisions are taken independently. The federal government has no constitutional power to compel other tiers of government to spend in accordance with national priorities. Finally, other federal ministries—including defense, education, and internal affairs—own and run extensive networks of health facilities—which provide treatment and care for armed forces personnel and their families, students, and prison inmates, respectively.

*Source:* Health Systems 20/20 2012b.

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metropolitan levels to coordinate planning and budgeting or to finance the provision of urban infrastructure and services.

Instead, state and local governments are responsible for carrying out such functions. Table 4.9 provides a rough idea of how this might be expected to play

### Box 4.6 Federal, State, and Local Government Assignments in Kaduna's Education System

The three tiers of government in Nigeria have concurrent responsibilities for the operation and funding of education. According to constitutional provisions, the main responsibilities of the federal government are in the realm of education policy formulation, coordination, and monitoring, and providing direct control at the tertiary level.

State governments are mainly responsible for the operation and funding of secondary education, and primary and pre-primary education provision is a local government responsibility. In practice, however, federal and state governments in Kaduna have established and managed institutions at all levels of education—pre-primary, primary, secondary, tertiary and even nonformal education centers within the same state.

Within every level of government, education systems are established and backed by their own laws and policies that are often promulgated with little or no regard to other levels. This causes endless problems. Subsequently, the mechanisms to distribute this concurrent responsibility have resulted in one of the most complex financing systems in the world.

*Source:* UNESCO and Kaduna State Ministry of Education 2008.

**Table 4.9 Hypothetical Functional Assignments within Cities**

<i>Assignment</i>	<i>State government</i>	<i>Local government</i>
Urban planning	Strategic planning	Local-level planning within LGA jurisdictional boundaries and providing local inputs into strategic city planning
Roads	Construction and maintenance of main city roads (and drainage), crossing cities and linking city road networks to the federal road network	Construction and maintenance of side and residential streets (and drainage)
Primary education	Setting of standards, oversight, and supervision of primary schools	Construction and maintenance of primary school facilities, payment of teachers, provision of teaching materials
Primary health care	Management of referral facilities; setting of standards, oversight, and supervision; conducting health awareness campaigns	Management of primary health centers; payment of salaries for primary health workers
Water supply	Management of city water supply systems	No function
Solid waste management	Management of waste disposal and recycling facilities; oversight and supervision of waste collection	Solid waste collection
Housing	Not known	Not known

out in Nigerian cities if functional assignments were followed as prescribed by the constitution and other national policy documents.

In practice, however, state governments have (since the promulgation of the 1999 constitution and restoration of civilian government) gradually and inexorably assumed the responsibility for most functional assignments in cities (and, indeed, for many equivalent assignments in semirural and rural areas)—both through state ministries and statewide parastatal agencies or authorities.

Local governments, largely, have become marginalized bit-players in urban infrastructure and service delivery—engaged as deconcentrated arms of the state government or delegated with carrying out “residual” tasks, such as ad hoc street maintenance. Despite their formal functional assignments, local governments play a very minor role in the provision of infrastructure, in general, and urban infrastructure, in particular. The relatively small amounts of capital expenditure that local governments control or account for reflects this (see tables 4.6 and 4.7).

Political economy factors—rather than technical considerations about the appropriateness or otherwise of formal functional assignments—have played a predominant role in the encroachment of state governments onto the formally defined functional “turf” of local governments (box 4.7).

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#### **Box 4.7 State Power and Local “Conquest” in Nigeria since 1999**

Nigeria's state governments are among the most politically powerful subnational actors in Africa.

States have used their formal concurrent powers, as defined by the constitution, and capitalized on ambiguities in the constitutional division of powers to expand the scope of their authority, largely at the expense of local governments. This has enabled them to undertake extensive activities in education, health, agriculture, infrastructure development, and the administration of law and justice. The Nigerian three-tier federal design has effectively receded into a two-tier system, in which politically powerful state governments overwhelmingly dominate the subnational domain.

In practice, state-local relations in Nigeria have metamorphosed into a form of deconcentration, in which local governments have been reduced to administrative agents and political appendages of their respective state governments, in general, and state governors, in particular.

This has all made eminent political sense: party political machines are dominated by state governors and state-level actors, both keen to extend their influence and patronage. Local government appointments are prebends to be awarded to political clients (and, if at all possible, not submitted to electoral scrutiny).

*Source:* USAID 2010a, 2010b.

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The 1999 constitution has provided state governments with the means to efface local governments, by putting states firmly in between the federal government and local governments and providing states with the power of legislating on local government.

Most importantly, the share of federally collected revenues allocated to local governments flows through their respective state governments—and provides the latter with the means to “deduct” charges (for state government expenditure) from gross local government allocations. Extensive state-level administrative control over local government personnel and staffing has reinforced the authority of state governments and diminished the autonomy of local governments, as box 4.8 discusses.

State governments also exercise control over their local governments through expenditure authorization powers. Local governments’ annual budgets, for example, are subject to prior approval by state ministries of local government. In some states, these ministries also approve individual payment authorizations by LGAs above a given ceiling: in Oyo State, for example, any local government payment order for more than ₦0.5 million (about US\$2,500) must be submitted to state ministries of local government for authorization.

In cities, and especially in state capitals (typically the largest cities in any state), state governments are the key subnational public actors. For most intents and purposes, state governments should be seen as the subnational institutions responsible for the provision of urban public goods and services. On paper, local governments may appear to have significant responsibility for infrastructure and service delivery; in practice, their budgetary resources are spent in accordance with decisions made by state governments.

To illustrate how this operates in the delivery and financing of public goods and services in cities, box 4.9 describes solid waste management arrangements in

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#### **Box 4.8 Subnational Intergovernmental Relations**

Although the 1999 constitution explicitly recognizes local governments as a separate unit of government, eligible for a share of centrally pooled revenues, it limits their ability to incur expenditure.

This is due to the creation of a state and local government joint account for each state, administered by state governments into which these revenues are paid. Each state determines how funds are allocated to the local government areas (LGAs) under its jurisdiction, after deducting various amounts from gross allocations.

In the four states assessed, as in the other 32 states, data on estimates of transfers to each local government and the actual distribution of collected revenues were unavailable. LGAs lack administrative and financial autonomy and their ability to function as a unit of government was left to the discretion of the individual states.

*Source:* World Bank 2011.

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**Box 4.9 Solid Waste Management in Nigerian Cities**

In Ibadan city (the Oyo State capital), the parastatal Oyo State Solid Waste Management Authority (OYOWMA) handles solid waste management. Established in 2008, with a statewide functional mandate, the authority provides urban solid waste management services in Ibadan and other (smaller) cities (such as Oyo town and Ogbomosho).

Wherever garbage collection fees can be charged, a network of 400 licensed private service providers (of whom some 300 operate in Ibadan city alone) provides waste collection services; where cost recovery is not realistic (as for some of Ibadan's poorer neighborhoods and the city's public spaces), OYOWMA is directly responsible for waste collection. The authority also provides a free-of-charge waste collection service on Thursdays.

Across the state as a whole, OYOWMA has seven operational zones, each with a representative on OYOWMA's Management Board.

OYOWMA's budget and financial statements are not publicly disclosed; nor are they accessible upon request. But informal sources (in OYOWMA) estimate that 2014 annual expenditure was in the order of ₦0.5 billion (about US\$2.8 million). Of this amount, a little under ₦0.2 billion (about US\$1.12 million and 40 percent of total estimated expenditure) was financed out of monthly and equal "contributions" (₦500,000 or US\$2,500 per month) from each of Oyo State's 33 local governments, irrespective of whether they are urban or rural and irrespective of the amount of waste generated in their individual jurisdictions.

Assuming that Ibadan and other cities in Oyo generate larger amounts of solid waste than other parts of the state, the equal and monthly local government contribution amounts to the rural and semiurban local governments subsidizing solid waste management in the state capital (and other cities). Some local governments also have staff members seconded to OYOWMA's zonal offices. The remaining balance of OYOWMA's budget is (as far as can be understood) financed out of the state government's revenues and any cost recovery revenues.

*Source:* Ogungbuyi 2013; interviews with OYOWMA senior staff.

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Ibadan (other Nigerian cities are similar), and how this particular public service is provided.

In short, while formal functional assignments envisage shared state and local government responsibilities for service provision in cities and elsewhere, the situation is rather different in practice. State governments are de facto responsible for the delivery of most public goods and services in cities, relying on both their own revenues and (when needed) local government revenues to finance inputs. Local governments, on the other hand, have largely residual responsibilities and enjoy little (or no) autonomy in resource allocation decisions.

From a city perspective, this is dysfunctional. Firstly, state government jurisdictions are usually considerably larger than the cities located within them, implying that state governments are expected to pay attention to more than just

urban development. To that extent, states are typically less focused on purely urban priorities than would be the case, say, for municipal governments.<sup>14</sup> Secondly, the predominant role of state governments as de facto city managers leaves only residual roles to local governments, raising concerns about local accountability and citizen engagement.

### ***Managing Expenditure***

In discussing subnational public expenditure on urban public goods and services, it is not just the amounts or institutions involved that matter—the quality of such spending by state and local governments also needs to be taken into account.

A point worth noting here is the general paucity of information on subnational expenditure in many states and local governments. As box 4.10 shows (for the health sector), the absence of budget and spending data implies that public expenditure is poorly managed at the subnational level—even more so given that functional assignment and spending responsibilities are spread across a range of service providers and agencies.

Recent public expenditure and financial management reviews (World Bank 2011, 2013), conducted in 11 different states show that subnational planning, budgeting, budget execution, procurement, and public investment management are often well below par (box 4.11).

On the basis of what is known about subnational public expenditure and financial management, key weaknesses in infrastructure investments include the following:

- Limited subnational strategic planning in general and weak links to expenditure processes. Although a few state governments (such as Lagos and Edo) have clearly put a lot of time and energy into thinking strategically about

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#### **Box 4.10 Health Sector Spending at State and Local Government Levels**

The complexity of fiscal transfers and financial flows in Nigeria between federal, state, and local agencies makes it difficult for governments to reconcile and track resource flows across the different levels and agencies of the health system.

In Nasarawa State, for example, spending figures reported at the local government level differed significantly from those reported at the state level, highlighting the inability of state governments to fully track and understand health expenditures within local governments.

In Sokoto, while local government budgets are broken down by sector (such as health and education), it is impossible to obtain information on LGAs' health budgets. In general, the absence of accurate and detailed records on budgets and expenditures indicates that governments at all levels do not have the means to ensure that health resources are distributed equitably, efficiently, and effectively.

*Source:* Health Systems 20/20 (2012b).

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**Box 4.11 The Quality of State Government Public Expenditure Management**

Budget planning and preparation are generally weak and do not have a multiyear perspective in most states. Although some states have developed some form of medium-or long-term strategic development plan, no clear relationship exists between these plans and annual budgets.

In addition, the annual budget preparation process is not comprehensive (with significant gaps in budget coverage) and is disorganized and not run on a predetermined calendar, leading to protracted budget preparation with budgets not approved until well into the new fiscal year. While most states have clear budget calendars, compliance with the agreed timelines is generally poor.

Budget execution is also fraught with many problems. In general, credibility of the budget is low, as manifested in wide disparities between expenditure out-turns and approved figures. States typically spend less than they budgeted, usually on account of low execution rates on their capital budgets. In most states the procurement process is highly centralized, with the governor personally responsible for decisions on most large and medium-sized contracts.

Management of the capital budget is poor in most states. The budget call circulars issued to ministries, departments, and agencies during budget preparation provide only very general guidelines for the selection of capital projects for inclusion in the annual budget. No rigorous screening of project proposals takes place, and the criteria for project selection are not clearly articulated. In all the states, very few projects undergo project appraisal. Selection of specific investment projects is generally not based on formal appraisals; investment options are usually not subjected to formal cost-benefit analysis. And political considerations tend to override selection and location of most public capital projects.

*Source:* World Bank 2011, 2013.

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medium and longer-term development, these are the exceptions. Insofar as other state governments have engaged in some kind of medium or long-term planning,<sup>15</sup> such plans are more akin to general diagnostics than to well-argued statements of intent and purpose. Moreover, no state governments have invested in long-term or strategic, citywide planning, per se. Nor is there much evidence of consistent linkage of planning and budgets.

- Public investment management is generally weak. Most state governments do not have a coherent framework within which to prioritize sectors or investments. Few if any public investment pipelines exist. Public investments in specific infrastructure projects are not subject to any rigorous scrutiny and do not seem to be robustly screened or appraised. Operations and maintenance issues are not systematically factored into any investment decisions—and are thus unlikely to be taken into account in subsequent budgets.

- Even assuming investments are well-planned and then carefully screened and appraised, subnational performance in budget execution is poor. State-level public expenditure reviews show that most states underspend—especially from their capital budgets. Low rates of capital budget execution point not only to inadequate “upstream” investment preparations, but also to procurement bottlenecks and other implementation constraints.

Given these deficiencies in state government expenditure and financial management, it would be safe to conclude that spending is both ineffective and inefficient. This would apply to any spending on urban public goods and services. All in all, it can only be concluded that subnational public expenditure in cities does not deliver “value-for-money,” and that for every naira spent a great deal more could be delivered than is actually the case.

### ***Summing Up***

Absent municipal or city governments, *per se*, state governments are responsible for delivering most public goods and services in urban areas. Although assigned functions and responsibilities in the constitution, local governments (in practice) appear to play a marginal and “residual” role in urban infrastructure and service delivery.

Nonetheless, Nigerian subnational governments are big players in total public expenditure—accounting for a relatively large proportion of overall public expenditure, institutionally empowered with significant responsibilities for infrastructure and service delivery, and enjoying a great deal of discretion in the use of their fiscal resources. But their track records on managing public expenditure and finance are not reassuring.

## **Subnational Revenues**

### ***Overview of Subnational Government Revenues***

As defined by the constitution, subnational government revenue sources in Nigeria are twofold:

- Transfers from (or shares of) the federal funding pool, made up of revenues collected by the federal government on behalf of all tiers of government; and
- Own-source revenues, known as IGRs.

Taken together, these make up the wider funding pool out of which urban public goods and services are financed. Table 4.10 summarizes all federal, state, and local government revenues during 2009–13.

As a whole, total subnational government revenues account for almost 60 percent of all public revenues, or roughly 7–8 percent of nominal GDP.

Subnational government revenues, as can be seen from table 4.10, are dominated by their shares of the federal funding pool. States and local governments rely on their federal shares for over 80 percent and over 95 percent, respectively,

**Table 4.10 Federal, State, and Local Government Revenues, 2009–13**

<i>Level of government</i>	<i>Naira (billions)</i>				
	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
<b><i>Federal government</i></b>					
Retained revenue	2,642.98	3,089.18	3,553.54	3,629.61	4,031.83
<b>subtotal</b>	<b>2,642.98</b>	<b>3,089.18</b>	<b>3,553.54</b>	<b>3,629.61</b>	<b>4,031.83</b>
As % of total revenues	41.93	40.59	41.32	41.01	41.66
<b><i>State governments</i></b>					
Federal sources (share and others)	1,911.60	2,129.40	2,800.90	2,747.10	3,171.30
Internally generated revenues	461.20	757.90	509.30	548.10	585.90
Internally generated revenues as % of total state governments revenues	17.80	23.97	14.94	15.34	15.27
Others	217.70	275.20	99.90	277.40	79.70
<b>subtotal</b>	<b>2,590.50</b>	<b>3,162.50</b>	<b>3,410.10</b>	<b>3,572.60</b>	<b>3,836.90</b>
As % of total revenues	41.10	41.55	39.65	40.37	39.64
<b><i>Local governments</i></b>					
Federal sources (share and others)	1,023.50	1,320.30	1,569.40	1,545.80	1,768.00
State transfers to local government areas	19.70	12.70	35.20	8.70	12.80
Internally generated revenues	26.10	26.20	31.60	26.60	29.30
Internally generated revenues as % of total local governments revenues	2.44	1.93	1.93	1.61	1.62
Others	0	0	0	67.00	0
<b>subtotal</b>	<b>1,069.30</b>	<b>1,359.20</b>	<b>1,636.20</b>	<b>1,648.10</b>	<b>1,810.10</b>
As % of total revenues	16.97	17.86	19.03	18.62	18.70
<b>Total</b>	<b>6,302.78</b>	<b>7,610.88</b>	<b>8,599.84</b>	<b>8,850.31</b>	<b>9,678.83</b>
	100.00	100.00	100.00	100.00	100.00
Revenues as % of nominal gross domestic product	25.40	14.00	13.60	12.40	12.10

Source: Central Bank of Nigeria Data and Statistics.

of their total revenues. Although Nigerian subnational governments are heavily dependent on their shares of the federal funding pool, such reliance on “transfers” from central governments (or revenue sharing arrangements with higher tiers of the intergovernmental system) is not entirely exceptional.<sup>16</sup>

What is particular about the Nigerian case is the extent to which subnational governments (and the federal government) are reliant on shares of federal revenues that are themselves largely determined by global energy prices. Given that world oil prices have been and are likely to remain volatile, federally collected revenues are subject to the same kind of fluctuations.<sup>17</sup> This, in turn, exposes subnational governments to unpredictable and uncontrollable revenue flows.

Despite the establishment of an Excess Crude Account in 2004, successive drawdowns on this fiscal reserve have depleted the account balance, now reported to be about US\$2.45 billion. For 2015, when global oil prices remained low, this has resulted in a diminished federal funding pool, smaller revenue shares

for state and local governments, and (according to the media) a fiscal squeeze on subnational expenditures.

### ***Sharing Federally Collected Revenues***

Prior to being shared among the three tiers of government, revenues collected by the federal government accrue to three accounts: a Federation Account, an Excess Crude Account, and a value added tax (VAT) Pool Account. Table 4.11 summarizes key features of these shared revenue accounts and the ways in which they are vertically and horizontally shared between the three tiers of government and then between states and local governments.

It is important to stress that this is a revenue-sharing arrangement—even if the end result may appear to be a system whereby intergovernmental transfers are calculated and then made to state and local governments by the federal government. State governments do not see their shares as grants but, rather, more as constitutionally sanctioned and legally enshrined shares of a common funding pool. Seen in this way, the three tiers of government are partners enjoying access to a revenue pool that is made up of taxes collected by federal authorities.

The vertical sharing arrangements between the federal and state government are well-known, frequently discussed, and highly politicized in Nigeria. However, remarkably less is known and debated about what lies beneath the state level, about how local governments access their considerable share of federal funding.

The share of the federal funding pool allocated to LGAs as a whole (20.6 percent in the case of the Federation Account and the Excess Crude Account; 30 percent in the case of the VAT pool) is determined by the Revenue Mobilization Allocation and Fiscal Commission formula and then subdivided according to the horizontal sharing formula.

Allocations to all LGAs in each state are thus calculated on the basis of the “post-derivation” formulas; these allocations are then transferred (as a single, statewide bloc) to each State Joint Local Government Account. At the state level, these accounts are managed by a Joint Accounts Allocation Committee, chaired by the state ministry of local government.

The first action the committee undertakes is to deduct a wide range of charges from the State Joint Local Government Account amount. These deductions are considerable<sup>18</sup> and include statutory charges (such as for pension funds, for traditional authorities, and so on), the salaries of primary school teachers, and various cost-sharing items.<sup>19</sup> After all deductions are made, the remaining amount is allocated to each LGA using a formula, which is often, but not always,<sup>20</sup> the same as the one applied for Federation Account/Excess Crude Account/VAT horizontal sharing to local governments. In practice, then, a good proportion of the “vertical” allocation set aside for local governments is effectively added to the vertical share for state governments.

Arrangements for horizontal allocations (between states) of federally collected revenues are also less frequently discussed in the public domain. While no

**Table 4.11 Sharing of Revenues Collected by the Federal Government**

<i>Sharing process</i>	<i>Federation account</i>		<i>Excess crude account</i>		<i>VAT pool account</i>	
Revenues from	Sale of crude oil and gas, mining rents and royalties, petroleum profits tax, companies' income tax, and customs and excise duties		Oil revenues above a base amount derived from a defined oil benchmark price		VAT receipts	
Amount to be shared	As above		Determined by National Economic Council		As above	
Derivation	13% of both <i>federation account</i> and <i>excess crude account</i> shared among nine oil-producing states, based on a formula that uses each state's contribution to onshore total production as weights. Intended to compensate for the impact of oil exploration activities.				Not applicable	
Post-derivation vertical shares	Federal government	All state governments	All local governments	Federal government	All state governments	All local governments
	52.68%	26.72%	20.6%	15%	55%	30%
Post-derivation horizontal shares (between states and between LGAs in states)	Not applicable	Each state receives an allocation based on: <ul style="list-style-type: none"> <li>• Equality of states (40%)</li> <li>• Population (30%)</li> <li>• Land mass and terrain (10%)</li> <li>• Social development (10%)</li> <li>• Internal revenue generation effort (10%)</li> </ul>	Each local government receives an allocation based on: <ul style="list-style-type: none"> <li>• Equality of states (40%)</li> <li>• Population (30%)</li> <li>• Land mass and terrain (10%)</li> <li>• Social development (10%)</li> <li>• Internal revenue generation effort (10%)</li> </ul> <p>Note: allocations to LGAs are made in a bloc for all LGAs in each state</p>	Not applicable	From their respective VAT funding pools, each state and local government receives an allocation based on: <ul style="list-style-type: none"> <li>• Equality of states/LGAs (40%)</li> <li>• Population (30%)</li> <li>• Derivation (20%), calculated on basis of overall state contribution to VAT</li> </ul> <p>Note: allocations to LGAs are made in a bloc for all LGAs in each state</p>	

Source: World Bank 2012, 2013.

Note: LGAs = local government areas; VAT = value added tax.

horizontal allocation system is ever going to be perfectly fair, the considerable weight (40 percent) given to fiscal equality in the formula through which federal shares are divided up among states and local governments appears to be inequitable.<sup>21</sup> State and local governments, irrespective of their different population sizes, all receive the same amount from the 40 percent of their respective vertical shares set aside for “equality.”

As a consequence, there are substantial variations in the per capita allocations to states and LGAs, as tables 4.12–4.14 show—with larger subnational governments receiving smaller per capita allocations than the smaller ones.<sup>22</sup> Other things held constant, this is both inequitable and not responsive to aggregate needs and means that larger states and LGAs receive a disproportionately smaller share of federally collected revenues than smaller subnational governments. From the point of view of city financing, this implies that urban centers in larger states are likely to have access to lower per capita allocations than are their equivalents in smaller states.

A final issue in the way horizontal shares are allocated concerns their spatial equity outcomes. As table 4.15 shows, the generally larger (and poorer) states in the North West receive lower per capita allocations than states in other geopolitical zones. On the other hand, the oil-producing states in the South South Zone receive the largest per capita amounts from the federal funding pool—a reflection of both their 13 percent derivation shares and their

**Table 4.12 Revenues per Capita by State, 2013**

<i>State</i>	<i>Naira</i>		
	<i>Federal allocations</i>	<i>IGR</i>	<i>Total</i>
Abia	21,948	3,811	25,759
Adamawa	22,632	2,367	24,999
Akwa Ibom	76,858	3,189	80,047
Anambra	15,136	1,817	16,953
Bauchi	14,691	2,780	17,470
Bayelsa	130,096	3,640	133,736
Benue	15,050	284	15,335
Borno	16,622	626	17,248
Cross River	19,765	4,396	24,161
Delta	58,047	4,075	62,122
Ebonyi	24,155	2,899	27,053
Edo	23,397	5,624	29,021
Ekiti	21,684	2,223	23,907
Enugu	17,223	1,351	18,574
Gombe	22,516	4,036	26,552
Imo	17,434	1,855	19,289
Jigawa	14,924	575	15,499
Kaduna	12,280	643	12,923

*table continues next page*

**Table 4.12 Revenues per Capita by State, 2013** (continued)

State	Naira		
	Federal allocations	IGR	Total
Kano	10,007	5,328	15,335
Katsina	12,223	1,191	13,414
Kebbi	19,144	1,451	20,595
Kogi	18,057	1,617	19,674
Kwara	40,530	5,103	45,633
Lagos	15,466	17,452	32,917
Nassarawa	27,210	2,630	29,840
Niger	17,088	1,089	18,176
Ogun	15,584	7,028	22,612
Ondo	25,806	2,209	28,015
Osun	16,007	2,308	18,314
Oyo	12,894	3,058	15,953
Plateau	22,084	2,894	24,979
Rivers	47,306	16,257	63,563
Sokoto	16,635	3,165	19,800
Taraba	24,688	2,695	27,383
Yobe	24,423	3,704	28,127
Zamfara	17,700	859	18,559
FCT	54,156	7,828	61,984
<b>Averages</b>	<b>23,218</b>	<b>4,187</b>	<b>27,405</b>

Sources: Central Bank of Nigeria Data and Statistics; Federal Republic of Nigeria 2006.

Note: FCT = Federal Capital Territory; IGR = internally generated revenue.

**Table 4.13 State Government Revenues per Capita, 2013**

Measure	Naira		
	Federal allocations per capita	IGR per capita	Total revenue per capita
Mean	26,526	3,623	30,149
Median	19,144	2,780	23,907
Maximum	130,096	17,452	133,736
Minimum	10,007	284	12,923

Sources: Central Bank of Nigeria Data and Statistics; Federal Republic of Nigeria 2006.

Note: Includes 13% derivation allocations for nine oil-producing states. IGR = internally generated revenue.

**Table 4.14 State Government Revenues per Capita, Non-Oil-Producing States, 2013**

Measure	Naira		
	Federal allocations per capita	IGR per capita	Total revenue per capita
Mean	20,029	3,179	23,207
Median	17,088	2,367	19,674
Maximum	54,156	17,452	61,984
Minimum	10,007	284	12,923

Sources: Central Bank of Nigeria Data and Statistics; Federal Republic of Nigeria 2006.

Note: IGR = internally generated revenue.

**Table 4.15 Per Capita Revenues by Geopolitical Zone and State, All States (Including Oil-Producing), 2013**

<i>Zone</i>	<i>States</i>	<i>Population (2006 census data)</i>	<i>Federal allocations</i>	<i>IGR</i>	<i>IGR per capita as % of total per capita</i>	<i>Total</i>
North Central	Benue	4,219,244	15,050	284	1.85	15,335
	Kogi	3,278,487	18,057	1,617	8.22	19,674
	Kwara	2,371,089	40,530	5,103	11.18	45,633
	Nassarawa	1,863,275	27,210	2,630	8.81	29,840
	Niger	3,950,249	17,088	1,089	5.99	18,176
	Plateau	3,178,712	22,084	2,894	11.59	24,979
	FCT	1,405,201	54,156	7,828	12.63	61,984
	<b>Mean</b>	<b>2,895,180</b>	<b>27,739</b>	<b>3,064</b>	<b>9.95</b>	<b>30,803</b>
North Eastern	Adamawa	3,168,101	22,632	2,367	9.47	24,999
	Bauchi	4,676,465	14,691	2,780	15.91	17,470
	Borno	4,151,193	16,622	626	3.63	17,248
	Gombe	2,353,879	22,516	4,036	15.20	26,552
	Taraba	2,300,736	24,688	2,695	9.84	27,383
	Yobe	2,321,591	24,423	3,704	13.17	28,127
	<b>Mean</b>	<b>3,161,994</b>	<b>20,928</b>	<b>2,701</b>	<b>11.43</b>	<b>23,630</b>
North Western	Jigawa	4,348,649	14,924	575	3.71	15,499
	Kaduna	6,066,562	12,280	643	4.97	12,923
	Kano	9,383,682	10,007	5,328	34.75	15,335
	Katsina	5,792,578	12,223	1,191	8.88	13,414
	Kebbi	3,238,628	19,144	1,451	7.05	20,595
	Sokoto	3,696,999	16,635	3,165	15.98	19,800
	Zamfara	3,259,846	17,700	859	4.63	18,559
	<b>Mean</b>	<b>5,112,421</b>	<b>14,702</b>	<b>1,887</b>	<b>11.38</b>	<b>16,589</b>
South Eastern	<b>Abia</b>	2,833,999	21,948	3,811	14.79	25,759
	Anambra	4,182,032	15,136	1,817	10.72	16,953
	Ebonyi	2,173,501	24,155	2,899	10.71	27,053
	Enugu	3,257,298	17,223	1,351	7.27	18,574
	<b>Imo</b>	3,934,899	17,434	1,855	9.62	19,289
	<b>Mean</b>	<b>3,276,346</b>	<b>19,179</b>	<b>2,347</b>	<b>10.90</b>	<b>21,526</b>
South Southern	<b>Akwa Ibom</b>	3,920,208	76,858	3,189	3.98	80,047
	<b>Bayelsa</b>	1,703,358	130,096	3,640	2.72	133,736
	<b>Cross River</b>	2,888,966	19,765	4,396	18.19	24,161
	<b>Delta</b>	4,098,391	58,047	4,075	6.56	62,122
	<b>Edo</b>	3,218,332	23,397	5,624	19.38	29,021
	<b>Rivers</b>	5,185,400	47,306	16,257	25.58	63,563
	<b>Mean</b>	<b>3,502,443</b>	<b>59,245</b>	<b>6,197</b>	<b>9.47</b>	<b>65,442</b>
South Western	Ekiti	2,384,212	21,684	2,223	9.30	23,907
	Lagos	9,013,534	15,466	17,452	53.02	32,917
	Ogun	3,728,098	15,584	7,028	31.08	22,612
	<b>Ondo</b>	3,441,024	25,806	2,209	7.88	28,015
	Osun	3,423,535	16,007	2,308	12.60	18,314
	Oyo	5,591,589	12,894	3,058	19.17	15,953
	<b>Mean</b>	<b>4,596,999</b>	<b>17,907</b>	<b>5,713</b>	<b>24.19</b>	<b>23,620</b>

*Sources:* Central Bank of Nigeria Data and Statistics; Federal Republic of Nigeria 2006.

*Notes:* States indicated in bold text = oil-producing states. FCT = Federal Capital Territory; IGR = internally generated revenue.

generally smaller populations. For urban development, the implication is that South South cities have greater per capita resources than do their equivalents in the North West.

### ***Subnational Government Revenue Assignments and Powers***

The constitution and other legal instruments spell out the overall framework for revenue assignments, as well as the latitude each tier of government has in setting tax bases and tax rates. For the most part, the responsibility for setting tax rates (the amount chargeable for a given tax) and tax bases (the measure upon which tax assessments are based—such as assessed property value for property tax) lies with the senior tier of government (that is, the federal government with respect to states and states with respect to LGAs).

Table 4.16 summarizes tax assignments among the levels of government. Most federal government revenues are pooled for sharing with state and local governments.

Tax revenue sources assigned to subnational governments are limited. Although the IGRs assigned to states are not particularly expansive, they do include personal income tax, which is potentially of considerable importance. Indeed, it has been shown by Lagos State that personal income tax can generate significant amounts of revenue.

Local governments, on the other hand, have generally been assigned less important and smaller revenues. The one potentially significant local

**Table 4.16 Tax Administration and Collection: Federal, State, and Local Government Responsibilities**

<i>Federal government</i>	<i>State government</i>	<i>Local government</i>
Companies' income tax	Personal income tax (pay-as-you-earn and self-assessment)	Shops and kiosks rates
Withholding tax on companies for nonresidents and FCT Abuja	Withholding tax on individuals	Tenement rates
Petroleum profits tax	Capital gains tax on individuals	Liquor license fees
Value added tax	Stamp duties on individuals	Slaughter slab fees
Education tax	Gambling taxes	Marriage, birth, death registration fees
Capital gains tax for nonresidents, corporate bodies, and FCT Abuja	Road taxes	Street naming fees (excluding state capital)
Stamp duties for nonresidents, corporate bodies, and FCT Abuja	Business premises registration fee	Right of occupancy fees
Personal income tax for military and police personnel, nonresidents, and FCT Abuja	Development levy on individuals	Market taxes and levies
	Street naming registration fee for state capital	Motor park levies
	Right of occupancy fees	Domestic animal license fees
	Market taxes and levies	Bicycle, truck, canoe, cart fees
		Cattle tax
		Merriment and road closure levy
		Radio and television license fees
		Vehicle radio license fees
		Wrong parking charges
		Public convenience, sewage and refuse disposal fees
		Customary burial ground permit fees
		Religious places establishment permit fees
		Signboard/advertising fees

*Source:* Decree 21, Taxes and Levies (Approved List for Collection), September 30, 1998.

*Note:* FCT = Federal Capital Territory.

government revenue source is “tenement” rates, which amount to a form of property tax—but active state governments have tended to take on the responsibility for the collection of such taxes (re-baptized as land use taxes or fees).

### ***Subnational Government Revenue Performance and Revenues***

#### ***State Governments***

As table 4.12 indicates, state governments, on the whole, do not raise a significant proportion of their total revenues from IGRs. On aggregate, these account for 15–20 percent of total state revenues.

But aggregates can be deceptive: there are significant variations in the performance of individual state governments. The breakdown of IGRs as a proportion of total revenues by state for 2013 (tables 4.17 and 4.18) shows that some states devote a great deal more effort than others to collecting IGRs:

- Lagos State leads all others in both the relative importance of its IGRs (53 percent of total revenues) and the absolute amount of IGR per capita (about ₦17,500).
- Six states appear to be doing considerably better than the average on IGR collection: Kano, Rivers, Ogun, Cross River, Edo, and Oyo.
- Benue State comes in at the bottom in relative importance of its IGRs (less than 2 percent of total revenues) as well as in the absolute amount collected per capita (a little under ₦300).
- Along with Benue State, six others collected IGRs amounting to less than 5 percent of their total revenues: Bayelsa, Borno, Jigawa, Akwa Ibom, Kaduna, and Zamfara.

These major variations in state fiscal effort are important to keep in mind when considering IGRs as an instrument for financing urban development.

#### ***Local Governments***

IGR collection by local governments is even lower. On aggregate, IGRs account for less than 2 percent of total local government revenues (table 4.19). As with states, local governments vary considerably in their IGR collection level (when statewide local government data are assessed) (tables 4.19 and 4.20).

Even within the constraints of very limited revenue assignments, LGAs in some states are clearly doing more than others to mobilize IGRs. In Ebonyi's LGAs, for example, these account for a little over 6 percent of total revenues—and, per capita, amount to about ₦830 (the second highest per capita amount among all LGAs). In contrast, conflict-affected LGAs in Borno State collected no IGRs at all in 2013.

As with many local government finance issues, these variations in local government fiscal effort are poorly understood.

**Table 4.17 State Government IGR Collection, 2013**

2013		
<i>State government</i>	<i>IGR as % of total revenues</i>	<i>IGR per capita (Naira)</i>
Abia	14.79	3,811
Adamawa	9.47	2,367
Akwa Ibom	3.98	3,189
Anambra	10.72	1,817
Bauchi	15.91	2,780
Bayelsa	2.72	3,640
Benue	1.85	284
Borno	3.63	626
Cross River	18.19	4,396
Delta	6.56	4,075
Ebonyi	10.71	2,899
Edo	19.38	5,624
Ekiti	9.30	2,223
Enugu	7.27	1,351
Gombe	15.20	4,036
Imo	9.62	1,855
Jigawa	3.71	575
Kaduna	4.97	643
Kano	34.75	5,328
Katsina	8.88	1,191
Kebbi	7.05	1,451
Kogi	8.22	1,617
Kwara	11.18	5,103
Lagos	53.02	17,452
Nassarawa	8.81	2,630
Niger	5.99	1,089
Ogun	31.08	7,028
Ondo	7.88	2,209
Osun	12.60	2,308
Oyo	19.17	3,058
Plateau	11.59	2,894
Rivers	25.58	16,257
Sokoto	15.98	3,165
Taraba	9.84	2,695
Yobe	13.17	3,704
Zamfara	4.63	859
Federal Capital Territory	12.63	7,828

Sources: Central Bank of Nigeria Data and Statistics; Federal Republic of Nigeria 2006.

Note: IGR = internally generated revenue.

**Table 4.18 State Government IGR Collection, 2013**

<i>Measure</i>	<i>IGR as % of total revenues</i>	<i>IGR per capita (Naira)</i>
Mean	12.70	3,623
Median	9.84	2,780
Maximum	53.02	17,452
Minimum	1.85	284

Sources: Central Bank of Nigeria Data and Statistics; Federal Republic of Nigeria 2006.

Note: IGR = internally generated revenue.

**Table 4.19 Local Government IGR Collection, 2013**

<i>LGs in State</i>	<i>IGR as % of total revenues</i>	<i>IGR per capita (Naira)</i>
Abia	0.28	35
Adamawa	3.69	537
Akwa Ibom	0.17	26
Anambra	0.44	48
Bauchi	0.74	86
Bayelsa	2.51	294
Benue	0.89	119
Borno	0	0
Cross River	1.84	242
Delta	1.78	268
Ebonyi	6.12	828
Edo	1.31	155
Ekiti	0.65	84
Enugu	1.63	184
Gombe	2.22	255
Imo	0.19	25
Jigawa	1.76	230
Kaduna	1.98	198
Kano	1.23	149
Katsina	0.84	104
Kebbi	3.96	556
Kogi	0.88	122
Kwara	0.83	127
Lagos	5.02	566
Nassarawa	1.04	161
Niger	1.33	203
Ogun	1.65	188
Ondo	0.52	58
Osun	0.57	88
Oyo	0.70	89
Plateau	0.77	94
Rivers	1.64	174
Sokoto	0.59	81
Taraba	1.04	174
Yobe	5.04	948
Zamfara	1.69	215
Federal Capital Territory	3.03	569

*Sources:* Central Bank of Nigeria Data and Statistics; Federal Republic of Nigeria 2006.

*Note:* IGR = internally generated revenue; LG = local government.

**Table 4.20 Local Government IGR Collection, 2013**

<i>Measure</i>	<i>IGR as % of total revenues</i>	<i>IGR per capita (Naira)</i>
Mean	1.64	224
Median	1.23	161
Maximum	6.12	948
Minimum	0	-

*Sources:* Central Bank of Nigeria Data and Statistics; Federal Republic of Nigeria 2006.

*Note:* IGR = internally generated revenue.

### ***Subnational Government Revenues: Urban Shares?***

Absent municipal government units and given the highly aggregated nature of information about subnational finance, it is not possible to distinguish between IGRs collected in urban areas and those collected elsewhere. Lagos is the only full-blown exception to this—there, it is probably safe to assume that virtually all IGRs (collected by both the state government and by local governments) are “municipal.” It would seem likely, nonetheless, that a disproportionate share of IGRs derives from urban taxpayers—not only because of the relative size of the urban population (at least 50 percent of Nigeria’s population), but also (and much more importantly) because city tax bases are invariably larger than rural tax bases.

### ***Comments and Discussion***

Several obvious points can be made about financing urban public goods and services.

First, subnational government access to its shares of the federal funding pool for revenues is double-edged. On one side, having an important share of federally collected revenues gives subnational governments access to significant fiscal resources, revenues that many of them would be unable to benefit from absent constitutionally sanctioned revenue-sharing arrangements. Subnational governments in northern Nigeria, for example, would be far worse off without their federal allocations. On the other side, reliance on federal shares means that subnational government revenues are subject to externally induced countercyclical fluctuations, due to the dependence of federal revenues on oil proceeds and the price of oil on the world market. Subnational government dependence on revenue-sharing arrangements makes for a considerable degree of budget uncertainty.

Second, states and local governments generally have a poor track record in mobilizing own-source revenues. Internally generated revenues represent a small proportion of total subnational government revenues. According to Central Bank of Nigeria data, only Lagos State’s IGRs amount to more than 50 percent of total state revenues.

IGRs are important for three main reasons: (a) they lessen subnational government dependence on the vagaries and unpredictability of their federal shares, over which they have no control; (b) they give subnational governments leverage for borrowing and the means to afford loans; and, not least, (c) they strengthen downward accountability to citizens and taxpayers.

A number of factors would appear to explain the generally below par fiscal performance of subnational governments:

- Tax assignments have not provided subnational governments significant sources of revenue.
- States do not have discretion to determine either the tax base or tax rate for any of their own-source revenues—and cannot therefore increase their revenues through upward or downward adjustments to the tax base or rate.

- Outside of major cities, local economies are underdeveloped, fairly agrarian, and often very poor. And even within large cities, the highly informal nature of local economies means that a large number of potential taxpayers are fiscally “invisible.” Raising significant amounts of taxes in such circumstances is no walkover.
- State and local government tax administration and collection systems are often rudimentary, corrupt, weak, and lack capacity.
- In general, Nigerians have little willingness to pay taxes or fees.
- Unwillingness to pay taxes is clearly compounded by considerable deficiencies in local service delivery. Underperforming schools, inadequate primary health facilities, unusable roads, and the like do little to encourage taxpayers (Bodea and LeBas 2013).
- The large amounts of revenue derived effortlessly from their shares of federal funds provide state and local governments with very few incentives to increase their IGRs. However, there is no hard and fast correlation between the amounts that state governments receive as their shares of the federal funding pool and their fiscal effort, measured by their IGR performance. As table 4.17 shows, the average IGR performance of the six state governments in the South South Zone (where federal shares are highest in the country) is poor. But in Cross River, Edo, and Rivers states, IGR performance is actually well above the state-wide average. Insofar as revenue-sharing arrangements may not provide state governments with positive incentives to collect IGRs, they do not necessarily crowd out subnational fiscal effort.

Despite the many factors that limit potential and actual own-source revenues at the subnational level, a good deal of room clearly exists for improvement in most states and local governments (Box 4.12).

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#### **Box 4.12 Edo State: Where There's a Will, There's a Way**

Although not as poor as many of Nigeria's northern states, Edo is by no means well off. It is one of the poorer states in the southern half of the country. In 2010, its per capita income was estimated to be only about US\$330, compared to US\$1,430 for the south and a national average of US\$1,155. The population living in poverty is estimated at 44.3 percent compared to the national average of 51.6 percent and a regional average of 38.3 percent in the south. Edo also has significantly higher overall unemployment compared to both the national average and the southern region average.

Despite this, Edo State's IGRs have increased dramatically under an administration elected in 2008. Since 2008, the share of IGRs has increased, reaching 16.7 percent of total revenues in 2009 and 20.9 percent in 2010. Taxes are the largest source of IGRs, contributing close to 70 percent of the total.

*Source:* World Bank 2012.

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## ***Borrowing and the Private Sector: Financing Alternatives***

### ***Subnational Government Borrowing***

The constitution allows subnational governments to borrow to finance their budgets. Subnational governments can borrow from external and domestic sources and from the private (commercial) and public sectors. All subnational government borrowing is subject to federal regulation of one sort or another.

### ***Levels of Subnational Debt***

Table 4.21 summarizes levels of subnational government debt in Nigeria. As can be seen, local governments borrow very little; state governments borrow significant amounts, particularly domestically. The rest of this section therefore only examines state government borrowing.

Aggregate figures for levels of state government debt, however, disguise a very high degree of variation between states, as table 4.22 shows.

**Table 4.21 State and Local Government Debt (End-2013) and Ratios**

<i>Subnational government</i>	<i>Domestic (US\$)</i>	<i>External (US\$)</i>	<i>Total (US\$)</i>	<i>Debt as % of total IGRs</i>	<i>Debt as % of shared federal revenues</i>
State governments	10,624,739,488	2,816,019,272	13,440,758,760	367.0	67.8
Local governments	51,814,759	0	51,814,759	28.3	0.5
<b>Total</b>	<b>10,676,554,247</b>	<b>2,816,019,272</b>	<b>13,492,573,519</b>	<b>350.9</b>	<b>43.7</b>

*Sources:* Central Bank of Nigeria Data and Statistics; Debt Management Office data.

*Note:* IGRs: Internally generated revenues. US\$1 = ₦160.

**Table 4.22 Variations in State Government Debt, 2011–13**

<i>Measure</i>	<i>End-2013</i>	<i>End-2012</i>	<i>End-2011</i>
<b><i>State Government Domestic Debt (US\$)</i></b>			
Mean	287,155,121	262,103,064	208,326,799
Median	154,573,414	150,733,250	130,675,750
Maximum	1,742,919,166	1,440,205,500	1,017,641,563
Minimum	1,685,334	5,743,313	9,940,875
<b><i>State Government External Debt (US\$)</i></b>			
Mean	76,108,629	64,437,270	58,522,900
Median	43,314,886	38,867,309	37,062,759
Maximum	938,135,518	611,253,157	491,847,296
Minimum	15,585,332	14,154,526	12,957,250
<b><i>State Government All Debt (US\$)</i></b>			
Mean	363,263,750	326,540,335	266,849,699
Median	199,614,347	180,935,853	178,088,828
Maximum	2,681,054,684	2,051,458,657	1,476,448,296
Minimum	40,050,199	46,678,037	23,485,750

*Sources:* Central Bank of Nigeria Data and Statistics; Debt Management Office data.

Lagos State is by far the largest borrower among state governments, for both domestic and external debt. Indeed, it alone accounted for 15–20 percent of all state government borrowing during 2011–13 (23–33 percent of all state government external borrowing and 13–16 percent of all state government domestic borrowing).<sup>23</sup>

Bayelsa State is the second largest borrower, accounting for around 10 percent of all debts, mostly on the domestic market.<sup>24</sup> Between them, Lagos and Bayelsa account for about one quarter of all state government borrowing. In addition, a number of states—such as Akwa Ibom, Imo, Taraba—borrow very small amounts.

In addition to formal state government borrowing (for which regular official data is available), some (and perhaps many or most) states have incurred “irregular” debts (or outstanding accounts payable) in the form of arrears owed to contractors for goods, works and services, pension arrears, unpaid salaries, and the like, which can be considerable.

Domestic borrowing by state governments includes several categories: bank loans, state bonds, contractors’ and other arrears. Table 4.23 breaks down the domestic debt stock of all 36 state governments and Federal Capital Territory (FCT) Abuja.

Since the end of 2011, bonds appear to have become a larger proportion of total state government debt stocks.

### ***Regulation of Subnational Borrowing***

State government domestic and external borrowing is federally regulated; states require approval from the Federal Ministry of Finance before they can borrow either on the domestic or external markets. In all cases, the national Debt Management Office is expected to carry out a debt sustainability analysis and ensure that any borrowing is within the prescribed limits. The general rule is that “the monthly debt service ratio of a subnational, including the servicing of the proposed debt issuance being contemplated, does not exceed 40 percent of its actual monthly revenue of the preceding 12 months” (DMO 2013a). Ultimately, and in one form or another, state government allocations from federally collected revenues provide loan repayment guarantees.

**Table 4.23 Composition of State Governments and Federal Capital Territory Abuja Debt Stock (End-2011)**

<i>Debt category</i>	<i>Amount (Naira billion)</i>	<i>Percent of total debt stock</i>
Bank loans	346.97	28.13
State bonds	320.23	25.97
Contractors’ arrears	435.69	35.55
Pension and salary arrears	67.46	5.47
Other liabilities and debts	62.94	5.10
<b>Total</b>	<b>1,233.29</b>	<b>100.00</b>

Source: DMO 2012b.

In general and in official circles, regulation of state government borrowing in Nigeria is thought to be adequate and relatively effective. However, media coverage of state government borrowing is less positive<sup>25</sup> and often raises questions about the rigor of debt sustainability analyses, optimistic fiscal and economic scenarios, transparency, and the use of loans by states.

### ***Purpose of State Government Borrowing***

As with other financial and fiscal data, it is difficult to determine the extent to which state government domestic borrowing is being (or is) used to finance urban investments. Indeed, and with the exception of state government bonds, little information is readily available on what subnational government borrowing is intended to finance in general.

State government bond issues are intended, in part, to finance infrastructure investments. On the basis of Securities and Exchange Commission documents and bond prospectuses, a varying share of the proceeds from state bond issues is intended to finance infrastructure investments, some or many of which are in cities. For instance, the prospectus for Osun State's Series A 2012 bond issue states that of the intended ₦21.275 billion proceeds, roughly 25 percent was earmarked for several road construction and rehabilitation projects, 17 percent for commercial infrastructure, 8 percent for urban renewal, and 9.4 percent for water works. The remaining 40 percent was earmarked for refinancing (or repayment of existing loans from First Bank of Nigeria).

State government external borrowing (largely from multilateral institutions like the World Bank or African Development Bank) is usually quite clear in its purpose. Most such external borrowing is used to finance capital expenditure, often related to urban infrastructure. The only exceptions to these are the World Bank's Development Policy Operations, which are reform focused, but which enable state government borrowers to finance their budgets in many ways,<sup>26</sup> including on urban infrastructure and service delivery.

### ***Levels of Debt: Sustainability Issues?***

States use a significant proportion of state government borrowing to finance public investments in urban infrastructure. As a financing instrument, however, the use of borrowing to finance urban (or any other public) investments is obviously limited by the capacity of states to take on debt. In many cases, this may not be a problem. But total state government borrowing has been steadily increasing over the last decade and debt servicing is projected to take up a growing percentage of total state revenues.

Lagos State, for example, needed almost 20 percent of its total revenues in 2013 to service its external and domestic debts (World Bank 2015); other, less fiscally robust states (such as Bayelsa and Cross River States) are probably spending even more on debt servicing requirements. The overall debt situation for state governments becomes more problematic given the decline in the amounts they are allocated from federally collected revenues as world oil prices fall and any

slowdown in IGRs as a result of slower economic growth. A full understanding of the sustainability (or otherwise) of state government debt requires in-depth (and case-by-case) analysis.

### ***Public-Private Partnerships***

Recognition has been growing of the potential importance of public-private partnership (PPP) financing for urban infrastructure and service delivery in Nigeria. An enabling legal and regulatory framework for PPPs is now in place at the federal level and in many states; although this can probably be improved, it is an essential precursor to on-the-ground private sector engagement in the delivery of public infrastructure and services. However, and especially for infrastructure, much of the potential of PPPs has yet to be realized.

On a small scale, PPPs have been successfully used in urban solid waste management for several years now. The Oyo State Solid Waste Management Authority, for example, has been partnering with small-scale private sector operators to collect and dump garbage in Ibadan and other cities since 2009. Private service providers, as they are known, are licensed to collect waste in specific areas, collect fees or charges from local residents and businesses, and pay for the use of public landfill sites. Similar types of arrangements for the use of private sector contractors or service providers in solid waste management are in place in other Nigerian cities, such as Lagos and Kano.

Lagos State has engaged in several substantial PPP-financed schemes for urban transport and has a pipeline of other major PPP infrastructure investments, most notably in the area of city railways. In addition, the Bus Rapid Transit (BRT) scheme and the Lekki-Oloyi Link bridge are two important projects. The BRT, operational and growing since 2008, involves the state government financing infrastructure upgrades and construction (of dedicated bus lanes, bus stops, and terminals, and so on) and then awarding management of bus fleets and routes to private sector operators, who are responsible for acquiring, running, and maintaining buses (and sharing bus fares with the Lagos Metropolitan Area Transport Authority). The operations and maintenance activities for the Lekki-Oloyi Link Bridge, construction of which was financed by the state government, are managed by a private sector operator, which charges tolls for the use of the bridge.

Outside Lagos, larger-scale PPPs in the urban sector have not been of widespread significance to date, largely due to persistent regulatory issues, high transaction costs, and low profit margins. And even within Lagos, the current PPP schemes are not free of controversy—whether driven by partisan political interests or not, there is clearly some dissatisfaction with toll charges for the Lekki-Oloyi bridge, public complaints about what is perceived to be the poor quality of the BRT bus network, and concerns about the limited degree to which PPP arrangements are pro-poor or inclusive.<sup>27</sup> Indeed, this kind of public dissatisfaction with the services provided through PPP arrangements is a reminder of the potential political vulnerability faced by PPP operators, adding to their risks and transaction costs.

One aspect of PPPs that has perhaps been underplayed is the extent to which they usually still require substantial public expenditure. Lagos State's better-known PPP schemes, for example, have all involved significant infrastructure investments, paid for out of either revenues or borrowing. Although PPP schemes can result in lower operating costs (as a public expenditure item), they nonetheless still rely on up-front capital spending by subnational governments—as well as the costs associated with subsequent regulation and monitoring of private sector service delivery.

Related to this, PPPs also often require a transparent and clear land-ownership framework that provides private sector investors with security and predictability and state governments with fixed public assets to bring to the table. In many Nigerian cities, such clarity is rare. In these circumstances, infrastructure PPPs (for transport, for public housing, and so on) become more difficult to agree on and implement.

## Policy Actions and Institutional Strengthening

### *Nigeria's Urban Financing "System"*

No *urban* financing system exists *per se* in Nigeria. Cities have no formal status as corporations or jurisdictions, and there are no city- or town-specific (municipal) governments that take responsibility for financing and delivering urban public goods and services. Insofar as public goods and services are provided to the residents of cities, this is done through state and local governments. State governments (with the possible exception of Lagos as a city-wide) are typically "bigger" than any one city, are expected to deliver statewide public goods and services, and certainly have constitutionally defined functions (such as the provision of judicial services) and powers (such as legislative and regulatory authority) that would generally be seen as going well beyond any municipal or metropolitan mandate. Financing a state government, in other words, encompasses rather more than financing a city, even a megacity like Lagos.

On the other hand, and although Nigerian local governments are relatively large units, they are almost always smaller than a major city (such as Zaria or Ibadan), and have constitutionally prescribed mandates and fiscal powers that are more restricted than would probably be the case for municipalities.

In addition, *realpolitik* in Nigeria has meant that, in most cases, local governments have become appendages to their respective states (and state governors)—at best, deconcentrated but active components of the state government's apparatus; at worst, largely irrelevant as governance or service delivery units. Neither states nor local governments, as they are currently described in the constitution, are city governments (however much their geographical territory might correspond to that of any given city).

Without city or municipal governments, urban public goods and services are provided and financed in a largely ad hoc or "residual" way. State governments finance and deliver city infrastructure and services as part of a wider set of

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### **Box 4.13 The Politics of Metropolitan Governance**

*"Politics (and not economics) often dictate the ultimate structure [of metropolitan governance and coordination]. The criteria of efficiency and equity are not necessarily considered in designing a new governance structure. Both London (with the abolition of the Greater London Council in 1986) and Toronto (with the 1998 amalgamation) provide examples of cities where politics dictated the outcome."*

*Source:* Slack 2007.

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statewide public goods and services; local governments (insofar as they are functional) do so within their much smaller jurisdictions and in very modest ways.

From the point of view of financing cities and meeting their specific needs, this is limiting and problematic. But this is unlikely to change in the short or even medium term. Establishing a system of city or municipal government would require constitutional reforms. Moreover, city governments would quickly (and rightly) be seen by state governments (or governors) as potential rival power bases. However much Nigeria may "need" a system of municipal or city government (operating alongside state and local governments) to face the challenge (and seize the opportunities) of urban growth and development, that need is unlikely to outweigh political economy considerations, which currently favor the status quo. As box 4.13 shows, this is by no means unique to Nigeria.

### ***Ways Forward***

If nothing is done to improve the ways in which public goods and services are financed and provided in Nigeria's cities, there is a serious risk that urban growth may be far less beneficial than it ought to be. Outside of the exceptional case of Lagos, state governments are unlikely to be able to focus sufficiently on the specific requirements of individual cities or to provide appropriate finance.

The costs of "doing nothing" here are probably high: inadequate services provided inappropriately, uncoordinated or unplanned infrastructure development and the associated waste of fiscal resources, an urban citizenry faced with deteriorating conditions, and so on. As Nigeria becomes increasingly urban, and as its cities grow ever larger, the opportunity costs of the status quo increase.

Given all of the above, the financing of urban infrastructure and public services in Nigeria will need to be improved—but will likely be undertaken through the existing institutional framework or what it can accommodate. Future constitutional reform may well be indicated to establish a renewed and more efficient and effective system of municipal government and financing. In the interim, improvements will probably need to be incremental, progressive, and crafted on a case-by-case basis.

That said, a number of issues can be addressed that would contribute to improvements in urban financing.

### ***Information and Knowledge***

A first area that deserves attention is information. Quite simply, remarkably little is known about the financing and provision of urban infrastructure and services in much of Nigeria. How exactly various urban services (such as solid waste management or street maintenance) are financed in many Nigerian states is a mystery. In particular, local government finance and the ways in which it links (or does not link) into the provision of urban public goods and services is very much a black box.

If state governments do purloin or appropriate local government allocations, little is known about why and how this happens, or whether it makes sense. Next to nothing is known on a systematic basis about how local government budgets are drawn up or executed. Given that more than 20 percent of the combined Federation Account/Excess Crude Account/VAT funding pool is notionally shared with local governments, learning more about how those allocations are budgeted and then spent would be invaluable for identifying policies aimed at improving the subnational financing system.

In addition, not a great deal more is known about how most state governments allocate their revenues to sectors, to investments, and to various expenditure items. Knowing more about current state and local government finance (and how it is spent) would clearly provide a better basis upon which to identify doable and meaningful improvements in the provision of urban infrastructure and services.

### ***Institutional Arrangements and Institutional Development***

Institutional arrangements and development are a second broad area for improvement. Even given little likelihood of a "big urban bang" in Nigeria's institutional landscape, scope clearly exists for institutional changes that may sharpen the focus on tackling urban issues and more effectively and efficiently financing urban infrastructure and services.

For key service delivery functions, citywide and city-specific management and financing arrangement can be an option. For example, in some states (such as Oyo), current arrangements for solid waste management are already helping to improve sanitary conditions. But these are state government initiatives and operate on a statewide basis, which, in the case of Oyo State, may not be the best way of managing either Ibadan's particular solid waste problems or that of other cities, towns, and areas in the state. Residents of Ibadan, where population densities are higher, are probably more concerned about solid waste management than are other citizens of Oyo State and may therefore be more willing to pay or do more for better and more comprehensive services.

A potentially useful template for this kind of specifically urban institutional arrangement is the Lagos Metropolitan Area Transport Authority (box 4.14). Its mandate is to plan and coordinate public transport services and infrastructure within metropolitan Lagos; as such, it is a city-specific and single-purpose institution.

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#### **Box 4.14 Lagos Metropolitan Area Transport Authority**

In response to the daunting challenge of ensuring more efficient and better public transport services in the Lagos megacity, the state government set up the Lagos Metropolitan Area Transport Authority (LAMATA), a semiautonomous public agency and corporate body.

Established by a State Act in 2002 (subsequently updated and amended in 2007), LAMATA has a broad mandate to formulate, coordinate, and implement urban transport policies in the metropolitan area. It is governed by a board made up of representatives from local transport operators, transport unions, Lagos State Government, and local government areas; and staffed by competent and competitively paid professionals. The authority's operations are financed through Lagos State budget contributions, a revenue share of the state-level Transport Fund, and loans from the World Bank.

Within the framework of a long-term transport master plan (running up until 2032), LAMATA has taken an integrated approach to the development of mass public transport systems in Lagos. Its key activities include the following:

- Establishing and regulating a Bus Rapid Transit network for key transport corridors in the city, based on publicly funded infrastructure and concessionary private sector ownership and management of rolling stock and operations.
- Upgrading and improving water transportation networks through new infrastructure and greater integration into the city's overall mass transit system.
- Overseeing the maintenance, upgrading, and rehabilitation of the city's 632 kilometer long Declared Road Network, which includes most major road arteries and corridors.
- Establishing the Light Rail Mass Transit network, on which construction work began in 2010. While the infrastructure needed for the network is being publicly funded, its rolling stock, network operations and maintenance, and day-to-day management will be undertaken by a private sector concessionaire, in line with LAMATA's public-private partnership strategy and approach.

General reviews of LAMATA's activities indicate that its integrated approach to public transport in Lagos City has reduced transport costs and journey times for many people.

*Sources:* Lagos Metropolitan Area Transport Authority.

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Similar types of sector-specific arrangements also exist in other countries. In the public transport sector, Singapore's Land Transport Authority is responsible for all public transport planning and coordination in the city-state. Examples also exist in other sectors of city-specific and single-purpose authorities—typically for water and sanitation (such as the Hyderabad Metropolitan Water Supply and Sewerage Board).

Providing support for citywide and city-specific management boards, with a mandate to oversee the coordination of urban planning and financing; Enugu State's establishment of the Enugu Capital Territory Development Authority is an example of this kind of institutional improvement (box 4.15). That said, such

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**Box 4.15 Enugu Capital Territory Development Authority**

Established by state government Law No. 5 (2009), the Enugu Capital Territory Development Authority's mandate is threefold:

1. Enforce compliance with appropriate standards by ministries, departments, and agencies with respect to municipal services in Enugu city.
2. Coordinate and monitor the provision of municipal services in Enugu city.
3. Advise the state governor on issues related to the development of Enugu city.

The authority is led by a commissioner (like other state ministers), assisted by a board that includes high-level representation from a range of ministries, departments, and agencies with urban functions (such as town planning, works and infrastructure, transport, water supply, and so on) as well as representatives from each of the three local governments within Enugu city.

While the development authority is clearly not a city government, it does appear to have a mandate similar to one—that is, with the singular exception of not being directly responsible for the delivery or provision of city infrastructure and services, but only having a regulatory and monitoring role. Nor does it have a “city budget” or access to any fiscal resources other than those for which the state government has voted appropriations. Nonetheless, the Enugu Capital Territory Development Authority is certainly an embryonic form of city manager.

*Source:* Enugu State Government 2009.

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agencies are unlikely to enjoy much authority or access to finance—but they would almost certainly be more focused on urban development (and its financing) than are statewide institutions.

Outside Nigeria, several examples of this type of city management option exist, most notably in India, where a number of state governments have established metropolitan development authorities to undertake citywide planning and service coordination in major cities such as Chennai and Mumbai.

Related to all this, another potential institutional improvement might be to revive local governments in cities and to make them a more meaningful actor in identifying and prioritizing public investments and services. Local governments, in principle, have access to revenues—and could be given more opportunities to play a role in deciding where to use resources. This is not to downplay the extent to which local governments have governance deficits, accountability failings, and capacity constraints. But no other obvious candidate exists for the job of bringing public choice or voice into city development, and to thus improving “allocative efficiency.”

Other institutional options certainly exist that would help sharpen public and governmental focus on cities and urban development challenges. States may already be putting some of them into practice, but they need to be documented and understood.

Given constitutional constraints and Nigeria's political economy, full-blooded and effective municipal or metropolitan governments are unlikely to emerge—in the medium term—as a framework for financing urban development. Other options need to be explored, replicated, and scaled up.

Of these options, the most promising are probably single-purpose and city-specific authorities (such as the Lagos Metropolitan Area Transport Authority [LAMATA]), empowered and mandated by state governments to manage, coordinate, and regulate key urban service sectors (such as public transport, solid waste management, and so on). Although these types of urban body are deconcentrated (rather than decentralized) institutions, they have the important virtues of (a) being focused on city functions, (b) able to maximize “within-sector” synergies and economies of scale, and (c) enjoying the authority delegated to them by state governments. Their sector specificity, on the other hand, does mean that such urban authorities may be weak on “horizontal” or “cross-sector” coordination (for example, between housing policies and solid waste or public transport management).

Greater “horizontal” coordination in urban development, however, might be improved by supporting and working through citywide development authorities (such as the Enugu Capital Territory Development Authority), operating on the basis of powers delegated by state governments, and mandated with broad planning and coordination functions for specific cities. A citywide authority like Enugu authority, on the other hand, may not provide the most robust of frameworks for urban financing and may also run the risk of becoming (yet another) relatively toothless planning agency. In practice, either or both of these institutional options for city finance would seem to be the most actionable and workable in Nigeria. And merit more thinking, with a particular focus on addressing some of their intrinsic limitations (such as weak downward accountability, “horizontal” coordination constraints, and weak financing mechanisms).

### ***Finance and Public Financial Management***

A third area for improvement is that of finance and financial management. A number of options merit discussion. Given the preponderance of revenue shares in state and local government budgets, it could be argued that changes in the way such shares are determined would be the easiest way of channeling more revenues to where they are most needed. As it stands, the formula for horizontal sharing is heavily weighted towards “equality” of states and local governments, such that each state or local government (irrespective of its size or other characteristics) receives an equal share of 40 percent of the Federation Account/Excess Crude Account/VAT funding pools. This results in smaller states/LGAs getting much higher per capita allocations than larger states/LGAs (Boex and Alm 2002). Modifying the sharing formula to give more weight to population (and less to equality) would mean larger states/LGAs receiving larger allocations, and thus more finance to fund their more populous cities. However, while this might seem to be a technically sound and logical

improvement to subnational government financing, it is very unlikely to gain much traction in Nigeria's political community.

Current revenue sharing arrangements provide state governments (and, to a much lesser extent, local governments) with allocations over which they enjoy a very high degree of discretion. Subnational shares of federally collected revenues are not earmarked for spending on predetermined sectors or items. This is not going to change. But provision of additional transfers to subnational governments that are earmarked<sup>28</sup> for urban investments is one policy option that could be considered. To what extent such conditional grants (targeted at state governments through the federal government) would be either politically acceptable to state governments or practically workable is, of course, another matter. A variant on this would be to establish this kind of mechanism<sup>29</sup> at the level of an individual state, aimed at providing local governments (or other substate agencies) with access to investment-specific financing earmarked for the urban sector.

In general, and as has been seen, states and local governments have plenty of room to improve their own-source revenue (IGR) collection performance. Increases in IGRs would result in more (homegrown) finance, leverage for increased borrowing, and enhanced accountability. The Lagos and Edo state governments have shown that—given the political will and the right kind of political leadership—it is possible to increase IGRs. A number of ways exist to promote this in other states, including (a) modifying the horizontal allocation formula for Federation Account/Excess Crude Account/VAT funding pools to “reward” states that have increased their fiscal effort (which would likely be a politically unacceptable reform); (b) using development assistance instruments (such as the World Bank's Development Policy Operations Credits) to accompany and incentivize greater fiscal effort by individual states; and (c) providing demand-driven technical support to assist states (and their LGAs) in strengthening their tax collection and administration capacities. A final option here would be to give state governments more latitude to adjust their tax rates and bases—although this would probably incur substantial political transaction costs. However, increases in IGRs would not necessarily translate into more and better financing for urban public goods and services—even though such increases would probably come from city-based taxpayers.

PPPs are another urban financing option, one that is admittedly being explored with more energy than success. PPPs are potentially significant in terms of raising additional finance to cover operating expenditures—especially in Nigeria's largest cities, where the private sector has real incentives to engage. Even in smaller cities, scope exists for PPP modalities to quietly improve public services in areas like solid waste management. However, although PPPs hold some promise, they still require public spending, can be institutionally complex and transaction costly, and may not be particularly pro-poor.

Many state governments rely on borrowing to finance (or refinance) investments. But some signs suggest that state government debt is growing rapidly and

that further borrowing may not be fiscally sustainable in some cases. But any policy actions on subnational government borrowing will require more information and a full assessment of subnational debt.

Last, but not at all least, one of the most sensible options for improving the financing of public goods and services in cities (and elsewhere) is to help make state and local government financial, expenditure, and investment management better. Public expenditure and public expenditure and fiscal accountability reviews of Nigerian states have consistently highlighted the poor quality of public financial, expenditure, and investment management in subnational governments, as box 4.16 shows.

What these reviews really underline is that current subnational management of public finance is unlikely to deliver value for money. Put another way, states and local governments do not spend very wisely. Improvements in the management of existing subnational finances would make for more effective spending on public goods and services, in cities and elsewhere, and make existing amounts of finance go a lot further.

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**Box 4.16 Subnational Public Financial, Expenditure, and Investment Management: Selected Quotes from Recent World Bank Public Expenditure Management and Financial Management Reviews in 12 States**

*"... the performance of the PFM systems across all the states was generally poor."*

*"Budget planning and preparation was generally weak in most states."*

*"Assessments of the efficiency of the public investment system carried out in Bayelsa, Ondo, and Plateau showed that management of the capital budget was still poor in these states."*

*"The capital budget system [in Lagos State 2010] is still underdeveloped ... the procurement system in Lagos is generally very weak."*

*"Budget execution was also fraught with many problems."*

*"Assessments of the efficiency of public investment management in the four states revealed that management of the capital budget was quite poor in these states. The process for project development and preliminary screening in the four states has not been formalized... [Investment] project objectives, necessary justification and expected results are rarely provided and alternative options for achieving similar results are not considered in the final selection of projects. No rigorous screening of project proposals takes place ... and the criteria for project selection [are] not clearly articulated in the states. In all the states, very few projects undergo project appraisal. There is no specific guidance on conducting project appraisals and the capacity ... to carry out appraisals is very limited. Projects are selected based on nontransparent criteria.... The states do not carry out a periodic rationalization of the public investment program and problem projects only tend to be addressed when it is too late to apply any remedial action to make them viable."*

Sources: World Bank 2010, 2011, 2013.

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On a pragmatic note, one clear option here is to provide state and local governments with technical assistance and capacity support to strengthen their management of public investments and expenditure. Box 4.17 looks at an ongoing, donor-funded initiative in Nigeria that provides this type of support on a demand-driven and project-by-project basis.

### ***Prescriptions or Menus?***

A final note on how these kinds of incremental improvements might be implemented. It is tempting to take the much-lauded “Lagos megacity model” as a blueprint for changing the way other Nigerian cities are financed and managed.

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#### **Box 4.17 Nigeria Infrastructure Advisory Facility**

The Nigeria Infrastructure Advisory Facility (NIAF), funded by the United Kingdom's Department for International Development, is a demand-driven technical assistance program providing support for more effective infrastructure investment to contribute to economic growth in the non-oil sector and the reduction of poverty.

NIAF provides consultancy services to federal and state governments to improve infrastructure planning and implementation. The first phase of the program ran from November 2007 to November 2011 and developed a reputation for quality. The second phase of NIAF runs until 2016.

A small team of full-time staff implements NIAF, which is in turn backstopped by a network of short-term consultants. It is designed to provide access to rapid and flexible consulting expertise to help Nigeria improve its infrastructure through policy and strategy formulation, planning, project implementation, and private sector investment. The main areas and sectors for which NIAF provides this kind of support are (a) power sector reform; (b) roads and railways sector reform; (c) improved capital program planning, financing, and implementation; (d) effective cities; (e) Northern growth; and (f) climate change.

NIAF provides support for infrastructure investment based on a clear recognition of the need for appropriate institutional and policy frameworks (such as support for the development of state mass transport policies as a prelude to the provision of technical support for subsequent infrastructure planning, financing, and implementation).

To date, NIAF has delivered over 500 “projects” (or technical assistance packages of varying scope, size, and duration), the largest proportion being in the power sector. Although many of these have been completed, some 150 are ongoing.

About 80 percent of NIAF support has been provided to the federal level (including FCT Abuja), and the remainder to states, and the total budget for these projects has been around US\$100 million.

NIAF appears to be effective at improving public sector investments in infrastructure. One of its strengths lies in its demand-driven modus operandi. However, relying upon demand for technical assistance may also limit its outreach.

*Source:* Nigeria Infrastructure Advisory Facility website, [www.niafng.org](http://www.niafng.org).

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However, there are 35 other state governments and at least 13 cities with more than 0.5 million people—and each state has its own history, its own way of doing things, and its own subnational political economy. Cities and states share many common problems and features, but are also different to each other—and none of them are megacities like Lagos, none are “city-states” like Lagos, and very few are managed by a technically competent and genuinely reformist leadership.

What works for the Lagos megacity and the Lagos State government may therefore not work in other cities and states. Multiple options for improving institutional arrangements and urban finance may need to be presented and discussed as a menu, on a case-by-case basis, rather than as *carte-blanche* prescriptions. Although Lagos does show what is possible under the right political and institutional circumstances, it would be unrealistic to assume that these circumstances prevail in other states and cities in Nigeria—and it is perhaps better to start with a solid assessment of context and political economy, and then work towards actionable policies and reforms.

## Notes

1. Lagos, more or less a city-state, is probably the only *de facto* exception here. Because the state is almost entirely composed of Lagos City (or megacity), information on state finance can be seen as very largely about city finance.
2. The official definition of an urban settlement in Nigeria is one with a population of over 20,000.
3. With its own special jurisdiction, the Federal Capital Territory of Abuja.
4. In Ghana, municipalities and districts have an average population (2010) of just over 100,000; in Uganda, sub-counties, town councils, and urban divisions had an average population in 2014 of about 25,000; in Bangladesh, Union Parishads had an average population in 2006 of about 27,000; in Vietnam, communes had an average population in 2006 of just over 10,500.
5. This has been done in Enugu State, for example, where the Enugu Capital Territory Development Authority was established by state law in 2009, with a mandate to ensure planning and coordination in Enugu city. As such, the authority acts as a citywide “apex” institution that covers the jurisdictions of three LGAs.
6. Including equipment, technical assistance, and capacity building.
7. This percentage is consistent with World Bank (2011) estimates of federal and subnational government shares of the infrastructure financing envelope.
8. As witnessed by recent debates about the condition of infrastructure in the United States. See <http://www.infrastructurereportcard.org/>.
9. In the 15 countries making up the European Union core, for example, subnational expenditure accounts for about 30 percent of total public spending (Eyraud and Badia) 2013. Based on data from a sample of 64 countries, it has recently been estimated that subnational government expenditure amounts to 40 percent of total public expenditure for advanced economies, compared to about 25 percent for emerging economies and developing countries (Sow and Razafimahefa 2015).
10. It is worth noting that (a) Jigawa and Akwa Ibom are also two of the six *worst* performing states in terms of IGR as a percent of total revenues; both states are highly

dependent on their share of federal revenue; and that (b) Rivers State, on the other hand, is one of the better IGR performers.

11. FCT Abuja (which is not a state government) has not been included in this ranking of capital expenditure.
12. It is worth noting that LGAs in Kebbi and Yobe are among the better IGR performers; Zamfara, however, is not, but is better than average.
13. Using an exchange rate of US\$1 to ₦200 naira.
14. On the other hand, it could be argued that state governments thus provide a regional framework for urban development planning, linking cities with their suburban and economic hinterlands.
15. Such as SEEDs (State Economic Empowerment and Development plans).
16. For example, subnational governments in Botswana, Ghana, Lesotho, and Uganda derive, respectively, 66 percent, 88 percent, 90 percent, and 92 percent of total revenues from intergovernmental fiscal transfers (Fjeldstad and Hegstad 2012). In Nepal (World Bank 2014a), all local governments (districts, municipalities, and villages) currently rely on transfers from central government for about 83 percent of their total revenues.
17. See Litwack (2013) for a discussion of oil revenues and fiscal sustainability in Nigeria.
18. For example: Delta State (June 2010), 45 percent of total (USAID 2010); Borno State (2002–03), 48 percent of total (Okafor 2010); Oyo State (Tomori 2015), 80 percent (2003), 72 percent (2004), 60 percent (2005), 77 percent (2006), and 77 percent (2007).
19. For example, each of the 33 LGAs in Oyo State contributes 0.5 million naira per month to the budget of the Oyo State Solid Waste Management Authority.
20. Oyo State, for example, since 2001, has used a somewhat different horizontal formula to share out allocations to its 33 LGAs. The formula used in Oyo allocates 50 percent on the basis of equality, 30 percent on the basis of population, and 20 percent on the basis of landmass.
21. See Boex and Alm (2002) and Freinkman and Dukowicz (2008) for a much more detailed discussion of the formula for horizontal sharing.
22. This also provides incentives for the proliferation of subnational government units.
23. In 2013, Lagos State accounted for about 5.6 percent of total state government revenues, 5.4 percent of all state government shares of federally collected revenues, and 17.5 percent of all state government IGRs.
24. In 2013, Bayelsa State accounted for about 1.1 percent of total state government revenues, 1.7 percent of all state government shares of federally collected revenues, and 1.1 percent of all state government IGRs.
25. For example, see <http://www.bloomberg.com/news/articles/2014-01-30/nigeria-pinching-state-bond-bonanza-before-vote-africa-credit>; [http://www.citizensbudget.org/index.php?option=com\\_contentandview=articleandid=198:rivers-state-sinks-deeper-into-debtandcatid=38:press-releasesandItemid=63](http://www.citizensbudget.org/index.php?option=com_contentandview=articleandid=198:rivers-state-sinks-deeper-into-debtandcatid=38:press-releasesandItemid=63); <http://leadership.ng/business/1284/state-govts-raise-n565bn-from-bond-market>; <http://www.thisdaylive.com/articles/checking-fg-states-dominance-in-nigerias-bond-market/181788/>.
26. Other than spending on items included in an agreed “negative” list.
27. See, for example: Olamide Udo-Udoma, “Transport in Lagos: Between Building and Banning,” *Future Lagos*, October 29, 2013, <http://futurecapetown.com/2013/10/lagos>

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28. Like the conditional grants programs for the Millennium Development Goals and basic education (Searle 2008).
29. Designed to operate as a type of Municipal Development Fund.

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