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Decentralization and Rural Service Delivery in Nigeria

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Outline

- Background
- Decentralization in Nigeria
- Principles of Nigerian Fiscal Federalism
- Access to Agricultural Services & Credit
- Policy Challenges



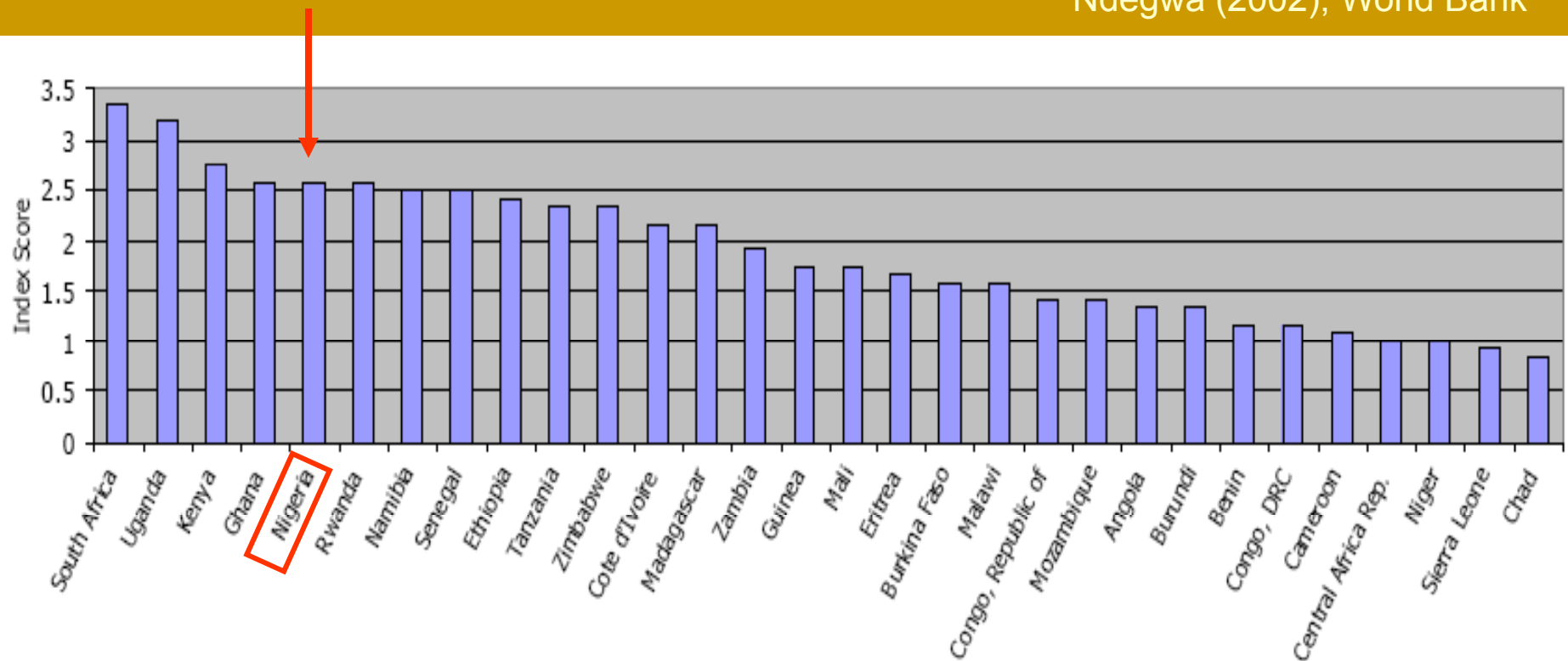
Background

- Recent focus on improving public service delivery (World Bank 2004)
 - Rural poor have uneven access to critical services
 - Women are often disadvantaged in rural service provision
- Major policy trend - Decentralization worldwide
 - High hopes
 - More voice and accountability
 - Preference matching & allocative efficiency
- Mixed empirical evidence worldwide
 - Decentralization does not necessarily reduce poverty and improve service provision
 - Inconsistency between resource allocation & expenditure assignments
 - Capacity and coordination problems at the local level
 - Problems of local elite capture & political market imperfections
 - Decentralizing governance problems

Decentralization in Africa

Extent of political, administrative and fiscal decentralization (Score from 0 to 4)

Ndegwa (2002), World Bank



Nigeria is one of the most decentralized countries in Africa.

The background features a collage of yellow line-art illustrations on a light yellow background. It includes a cow, a person riding a motorcycle, several fish, and various agricultural plants and crops.

Decentralization in Nigeria

- Authority and responsibility for public services provision shared between federal, state and local governments (774)
 - State governments have principal responsibility for basic services and agricultural development
 - Constitution allows state-level discretion in determining responsibilities for basic services
- State and local governments receive substantial amount of resources accounting for over 12 percent of GDP in 2006
- Current policy debate:
 - How decentralized system actually works in delivering services.
 - Are states and LGs equipped with adequate revenue resources to fulfill their service delivery responsibilities?
 - Will mere shift in resource allocation achieve desired objective of delivering better services to ordinary people?

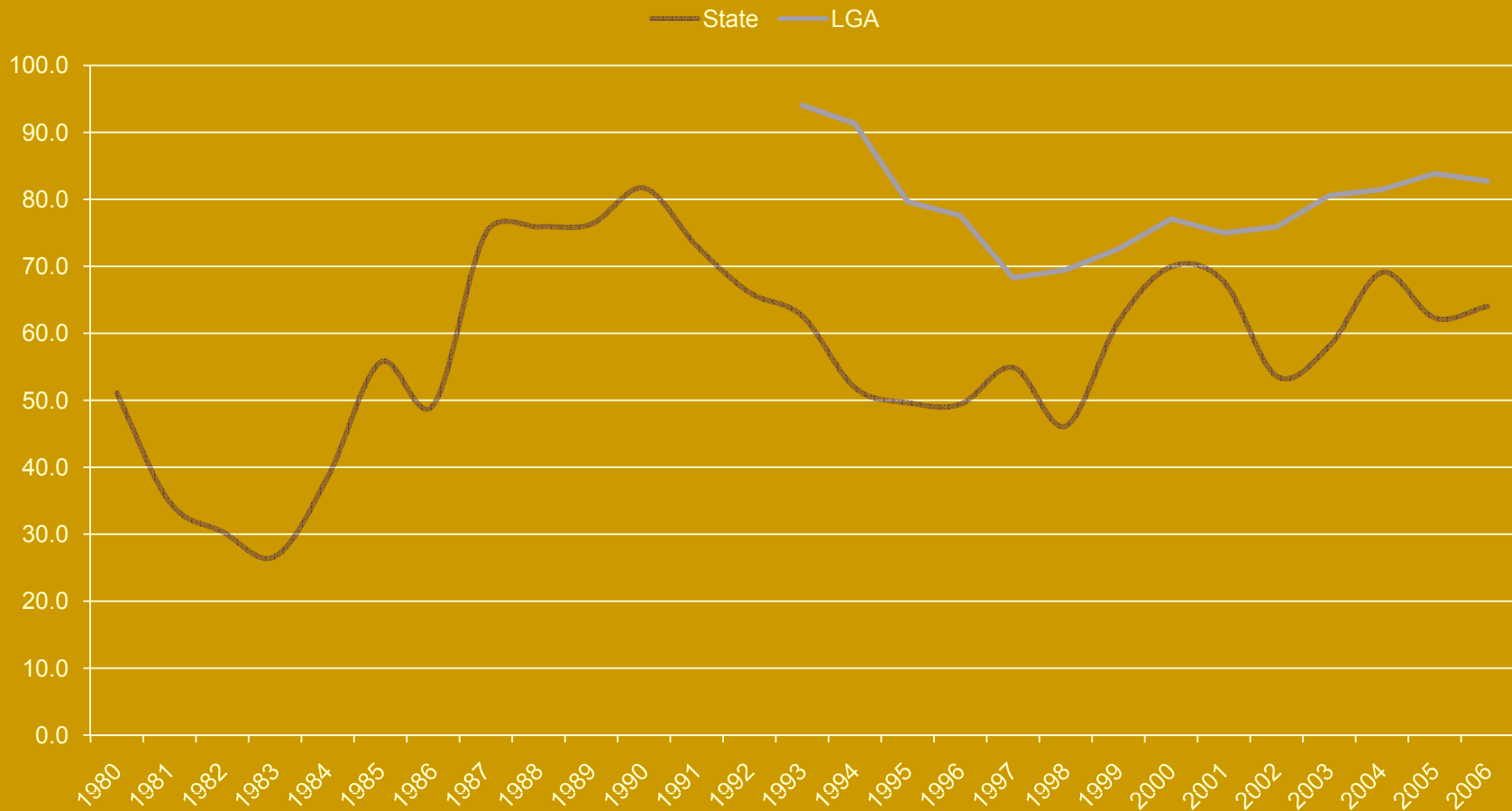
Expenditure Assignments in Nigeria

Tier of Government	Expenditure Category
Federal Only	Defense; Foreign affairs; Aviation; Railways; Federal roads; Police & security services; Regulation of labor, interstate commerce & communications; Mines & minerals; Interstate water resources; Social security & insurance; National statistical system; National Parks; Education standards at all levels
Federal-State (shared)	Electricity; Industrial, commercial & agricultural development; scientific & technological research; Statistics & surveys; Higher, professional and post-primary education; Health & social welfare
State-Local (shared)	Primary, adult & vocational education; Health services; Development of agriculture & non-mineral resources
Local government	Local infrastructure & development; Local markets & roads; Sanitation & other public facilities

Vertical Allocation of Federation Account Revenues

	1995-2002	July 2002	January 2004
Federal Government	56	54.68	52.68
State Governments	24.0	24.72	26.72
Local Governments	20.0	20.60	20.60

Share of Federal Allocations in State and Local Government Expenditures

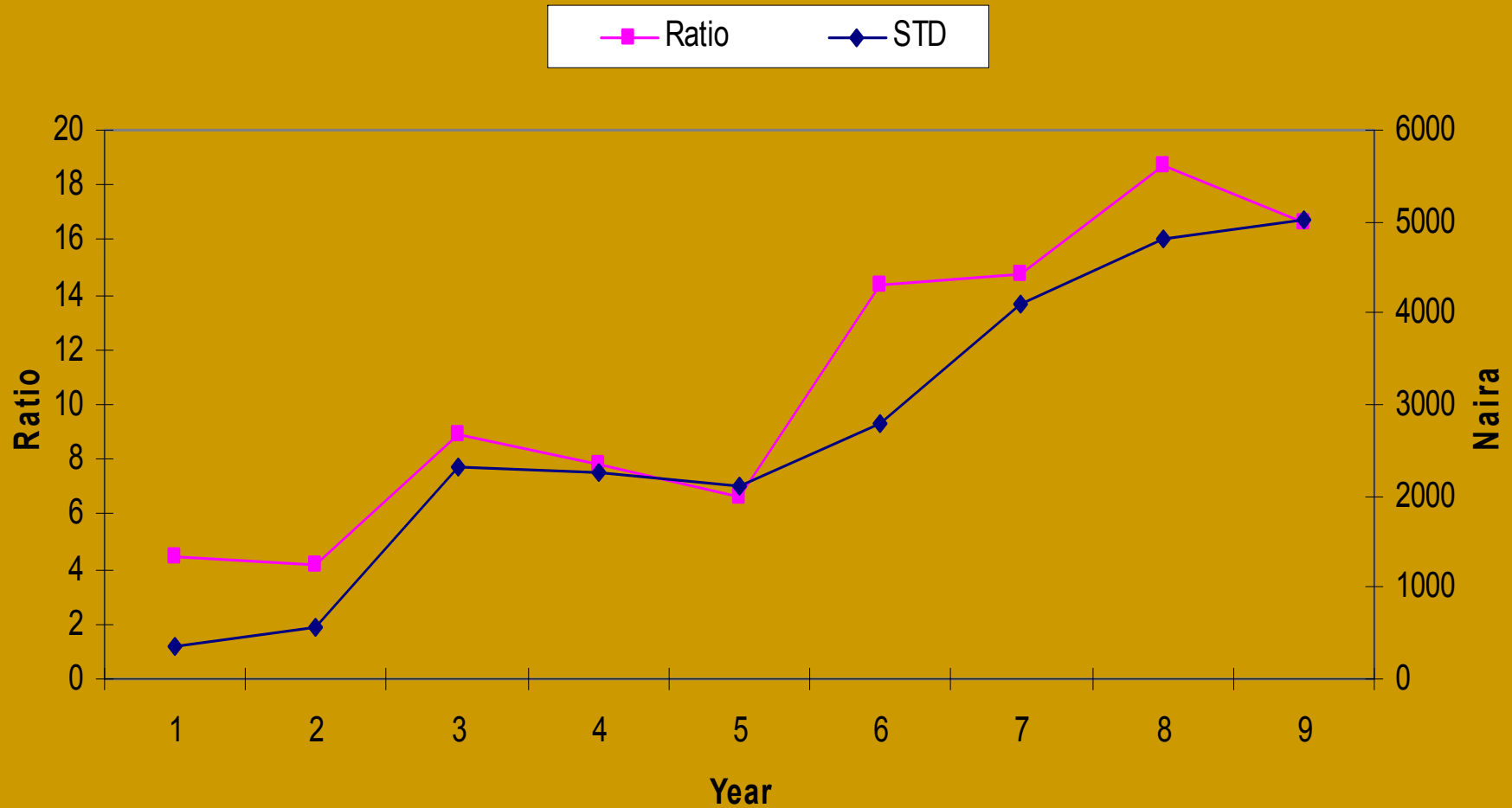


Horizontal Distribution of Federal Allocations Between States

Basis	%
Equality:	40
Population:	30
Land Mass and Terrain	10
Social Development Factors	10
Internal Revenue Effort	10

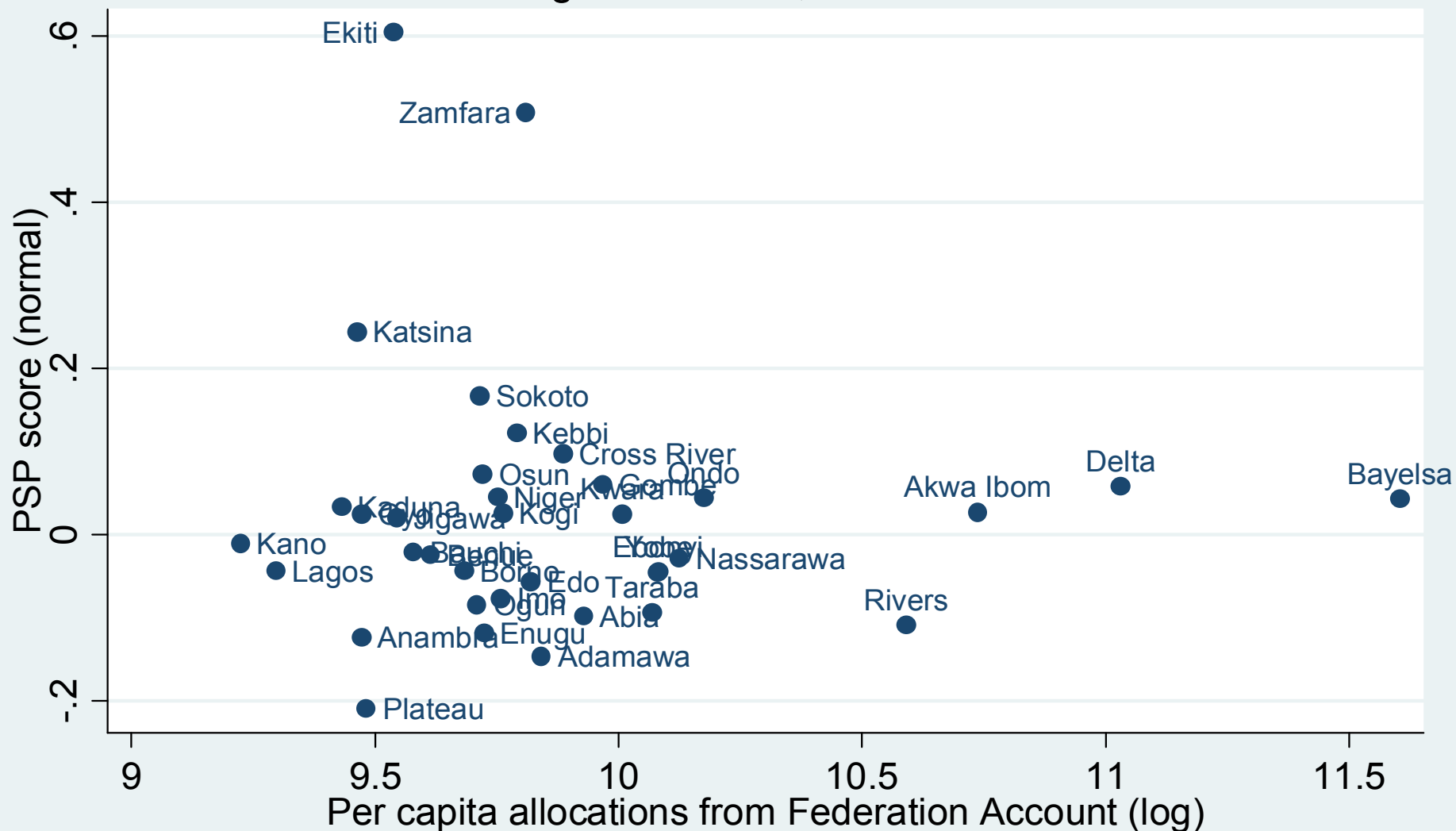
Note: Oil producing states receive 13 % of oil revenues generated in their territory based on derivation principle (first changes)

Horizontal Imbalances in Federal Allocations Increasing



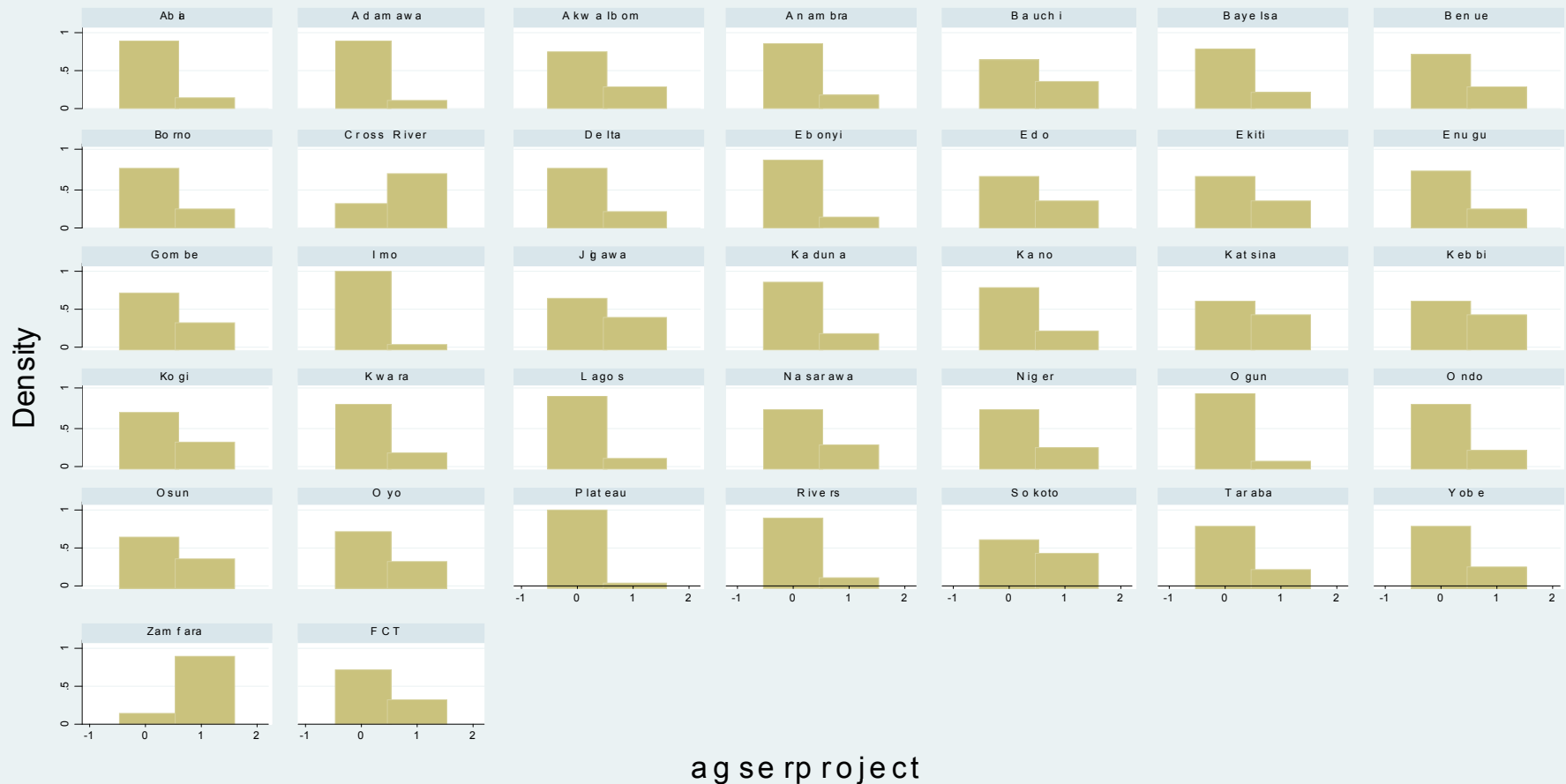
Per Capita Federal Allocation vs. Public Service Projects

Nigerian States, 2000-2005



Source: Authors' estimates based on data from CBN, FMF of Nigeria, CWIQ(2006)

Agricultural Service Projects Across States

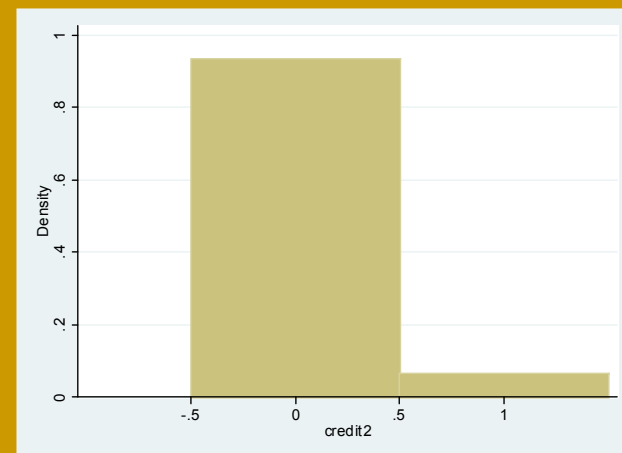
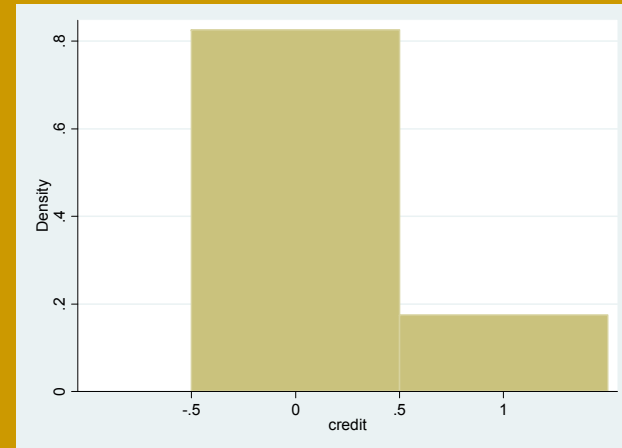


Graphs by State code

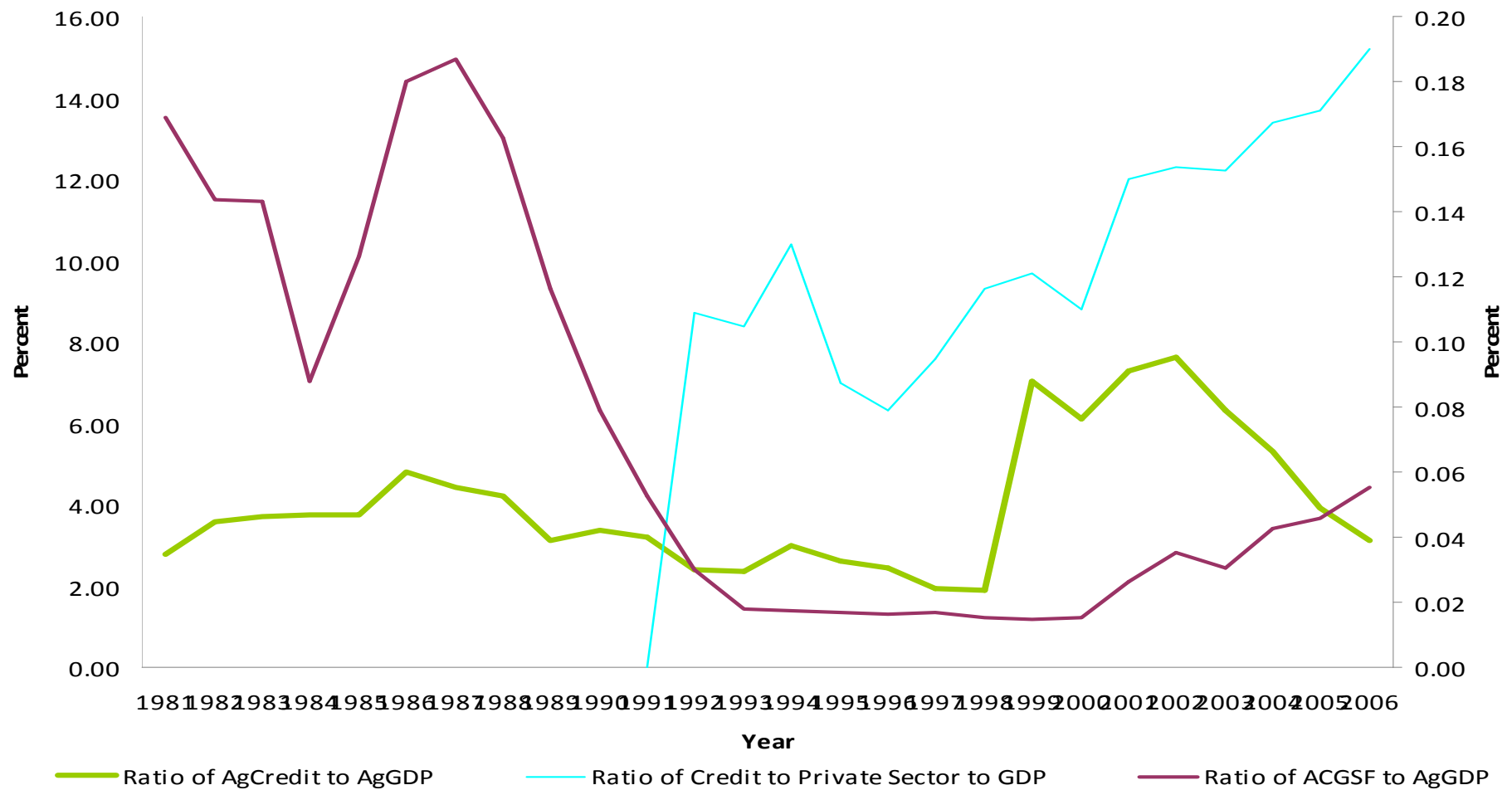
ag se r project

Access to Credit by Farmers

- About 17.5 % of farmers (20.6 % of non-farmers) have access to credit facility including esusu
- Only 6 % of farmers (11 % of non-farmers) have access to credit facility excluding esusu
- Government programs
 - ACGSF
 - Microcredit Development Fund
 - State ADPs



Financial Deepening in Nigerian Economy and Agricultural Sector

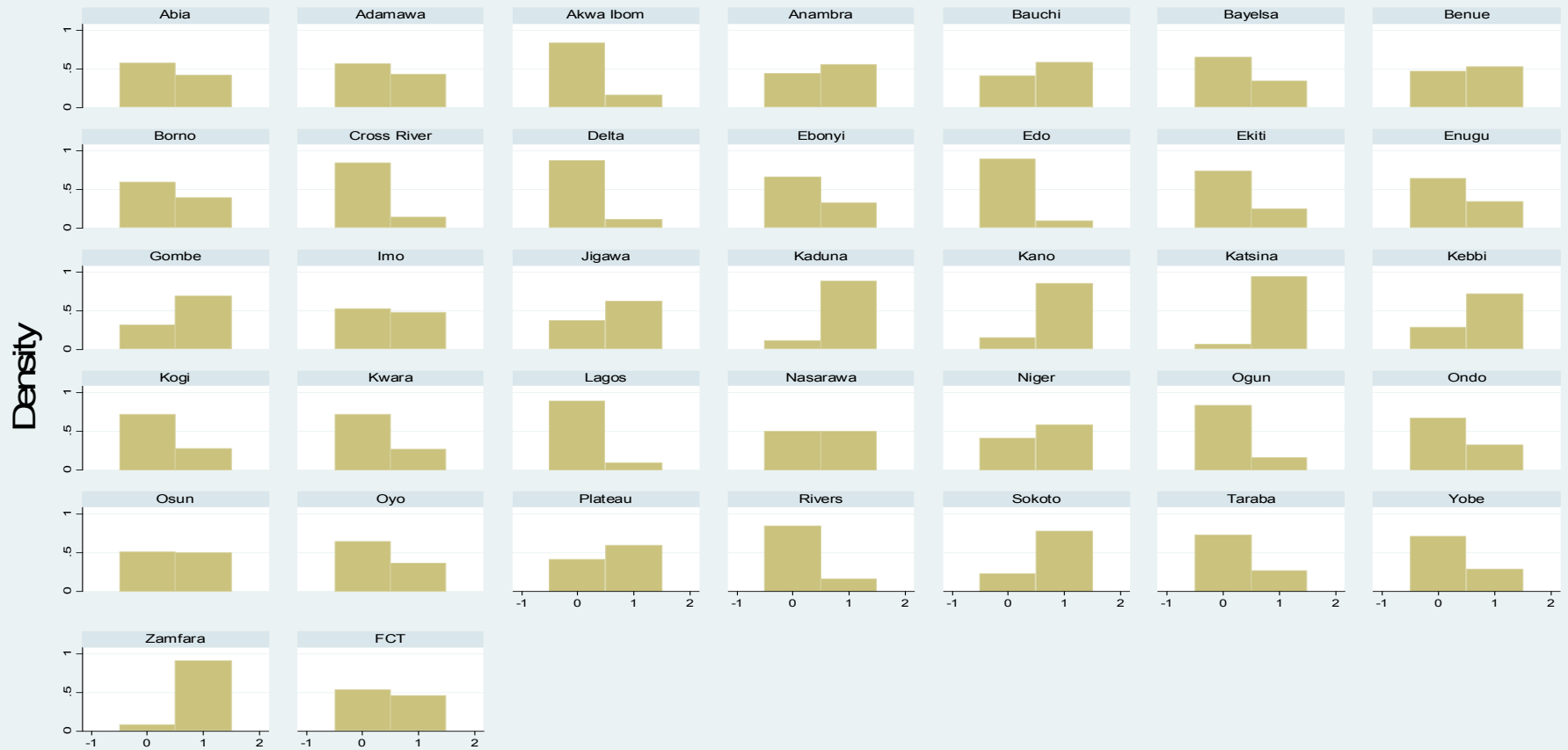


An illustration at the top of the slide depicts various agricultural elements: a cow, a person riding a motorcycle, a fish, a plant, and a carrot, all rendered in a light, sketchy style against a yellow background.

Access to Agricultural Services

- About one half of farm households in Nigeria have access to agricultural inputs
 - 42 % of farmers have access to fertilizer
 - Only 7% of them have use to improved seed
 - 11% have access to insecticides
- About 27% farmers live in communities that had at least one project related to agricultural services during 2001-2006
 - Output markets – 22%
 - Agric. extension - 5%
 - Veterinary services – 7%
 - Agric. inputs on credit - 4%

Access to Agricultural Inputs Across States



Graphs by State code

aginput1



Determinants of Access to Agricultural Inputs

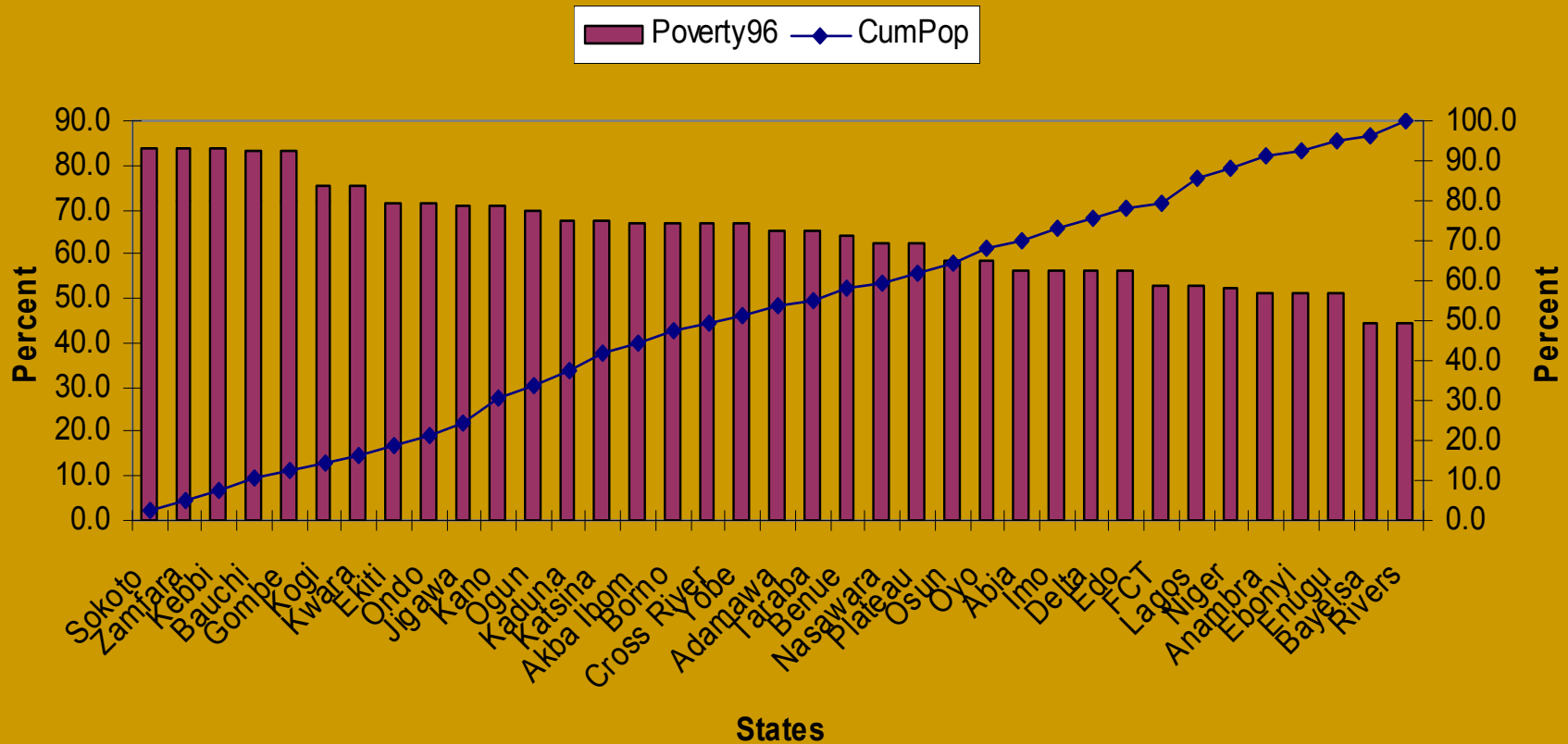
- Following categories of farmers are more likely to have access to agric. inputs
 - Male farmers (Odds ratio 1.5)
 - Farmers living in communities that had agricultural service projects during last five years
 - Extension (1.4)
 - Input on credit (1.5)
 - Input market services (1.53)
 - Output market services (1.2)
 - Farmers from third (1.7), fourth (1.94) & fifth (1.97) welfare quintiles
 - Households from northwest, northcentral & southeast zones
- Illiterate farmers are less likely to have access to agric. inputs
- There is negative correlation between social and infrastructure projects and access to agric. inputs (0.92)



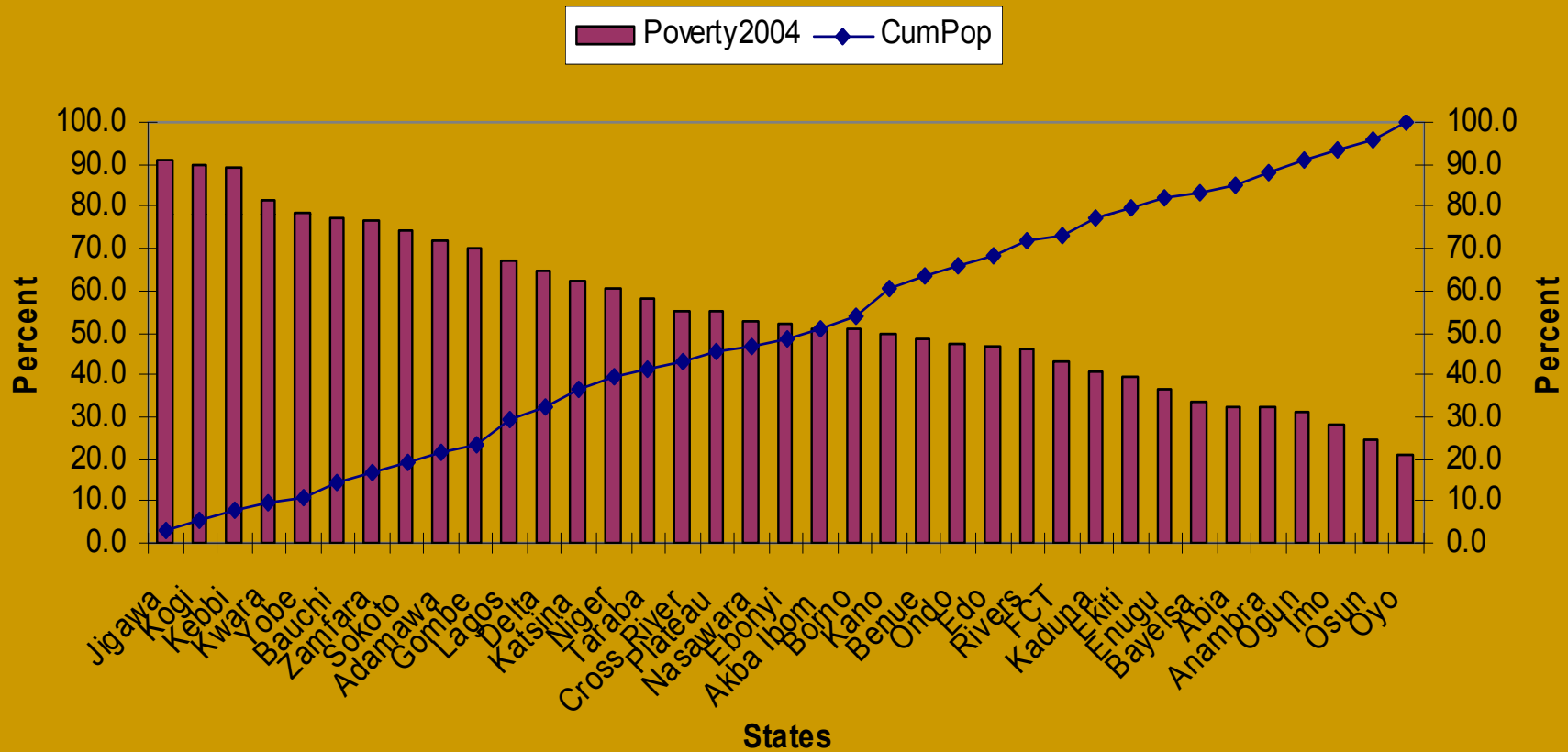
Policy Challenges

- Fiscal federalism suggests that intergovernmental transfers should be determined by equity and efficiency considerations
 - Support subnational governments in providing differentiated public goods to heterogeneous populations
 - Ensure relatively equal distribution of basic public services across all regions
- Horizontal imbalances in revenue sharing seem increasing in Nigeria
 - While overall poverty is declining in the country, its dynamics significantly varies across states
 - There are also significant differences between different states in access to services
- Access to agricultural services remains very low which might translate to slow growth in productivity and welfare

Distribution of Poverty in 1996



Distribution of Poverty in 2004





Acknowledgments

Canada 

Canadian International Development Agency



Annex



Intergovernmental Financial Flows

Oil Revenues

First charges including 13% derivation to oil producing states

Corporate Income Tax

Custom Duties and Excise

Federation Account

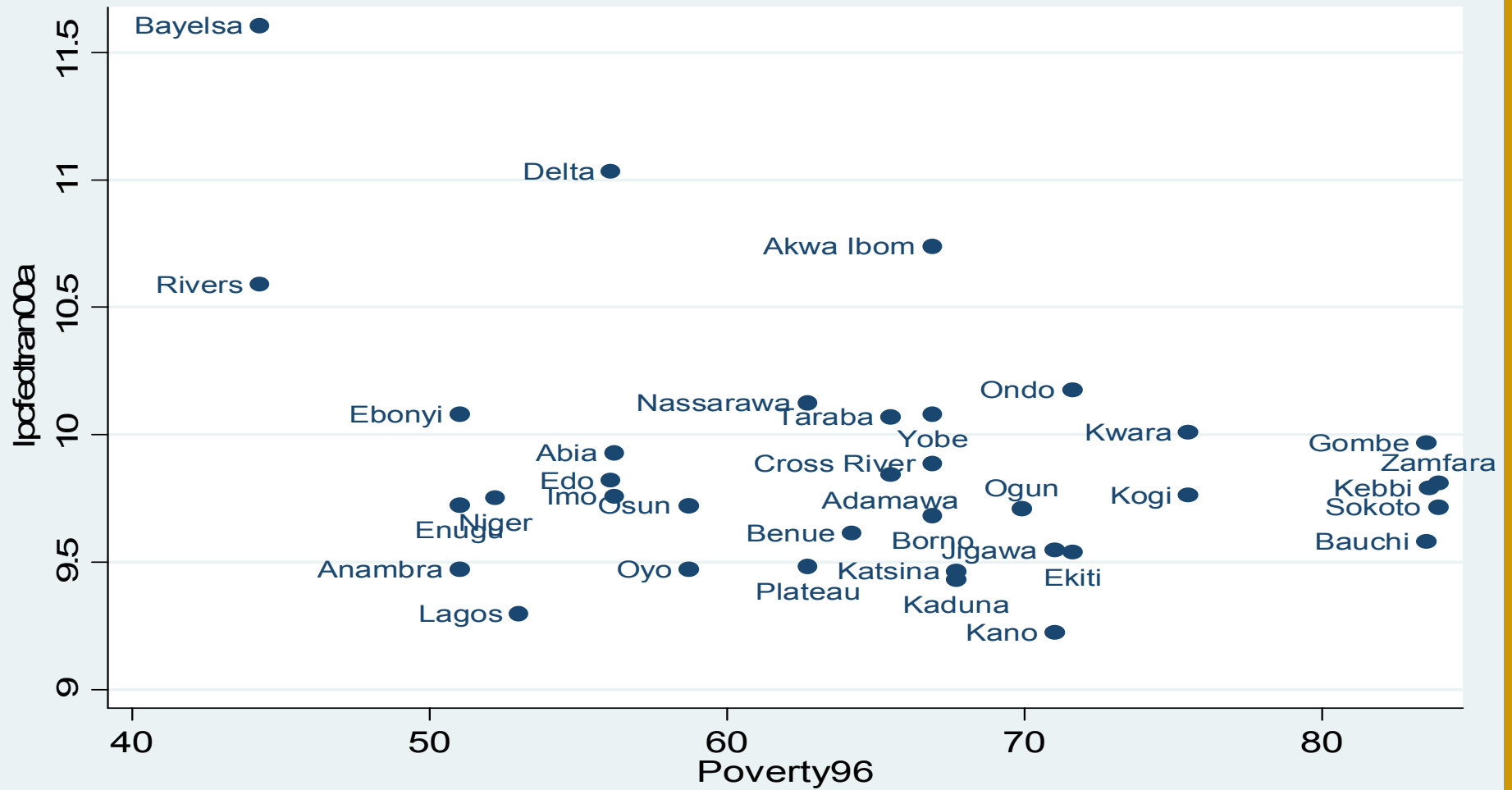
VAT

15 percent FG
50 percent SGs
35 percent LGs

PIT

Almost 100 percent States
Federal (very small)

Federal Allocations vs. Poverty Incidence (1996)



Federal Allocations vs. Poverty Incidence (2004)

