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## Nigeria Agricultural Policy Project

### **INSTITUTIONS AND PUBLIC AGRICULTURAL INVESTMENTS: A QUALITATIVE STUDY OF STATE AND LOCAL GOVERNMENT SPENDING IN NIGERIA**

By

Tewodaj Mogues and Tolulope Olofinbiyi



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## 1. INTRODUCTION

Agriculture offers significant potential for pro-poor growth and improved food security and nutrition in many African countries, including Nigeria (World Bank 2007; Diao, Hazell, and Thurlow 2010; de Janvry and Sadoulet 2010). The sector employs approximately 49 percent of Nigeria's total workforce and contributes about 20 percent of Nigeria's gross domestic product (United Nations 2016). Moreover, a significant accumulation of evidence demonstrates that public spending in agriculture is one of the most direct and effective ways of promoting agricultural growth, generating income, and reducing poverty (see Fan 2008; Mogues and Benin 2012). Evidence is also mounting on the potential for public agricultural spending to significantly improve nutrition and health outcomes (see Mogues, Fan, and Benin 2015). However, public agricultural spending in Nigeria remains low by several measures. Between 2003 and 2014, only 3 percent of Nigeria's total budget, on average, was spent on agriculture (ReSAKSS 2016). This level of spending falls short of the Comprehensive Africa Agriculture Development Programme target of 10 percent—a prominent commitment of the Maputo and Malabo Declarations<sup>1</sup>. A more appropriate measure is the sufficiency of public agricultural spending relative to the sector's contribution to the economy—also known as the intensity of public spending (Mogues et al. 2012). During the same period, the intensity of public spending on agriculture in Nigeria averaged 1.9 percent—a level too low to sustain the nation's investment needs in agriculture.

A reversal of substantial underinvestment in agriculture is imperative to unleash the full potential of agriculture to support economic development in Nigeria (World Bank 2007; Kuyvenhoven 2008; Olomola et al. 2014). To make headway toward this desirable end, an understanding of the dynamics of how public expenditure allocations are made and why public actors behave as they do is key. This is particularly important in the context of limited public budgets and the diverse interests of actors that come into play in the budget process (Fan, Yu, and Saurkar 2008; Mogues 2015). Such insights will help guide efforts on how best to support improved efficiency and effectiveness of public spending.

A large body of literature has focused on the drivers of agricultural policymaking in both developed- and developing-country settings, although to a lesser extent in the latter (see de Gorter and Swinnen 2002 for a synthesis). However, several applicable theories and empirical analyses on the dynamics of policymaking have not yet been applied to public expenditure decision-making in the agricultural sector, particularly in Africa (see Mogues 2015). This paper makes a contribution to this literature by drawing on the framework of actor-centered institutionalism (Scharpf 1997) to empirically examine how political and budget institutions affect the incentives of actors involved in the public agricultural finance process, structures the interactions between them, and ultimately shapes expenditure allocations.

In the next section, we introduce the conceptual framework of actor-centered institutionalism. In the context of the framework, we focus on how the features of the institutional setting—political and budget institutions—shape public expenditure allocations. A description of the data and methodology is presented in Section III. Section IV discusses the empirical findings of the study. The concluding section provides a summary of the key findings.

## 2. CONCEPTUAL FRAMEWORK: ACTOR-CENTERED INSTITUTIONALISM

The framework of actor-centered institutionalism (Scharpf, 1997) provides the theoretical foundation for this study. The starting premise of the framework is that social phenomena should be explained as the result of interactions among intentional actors. These interactions are structured, and their outcomes are shaped by the features of the specific institutional settings within which they happen.

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<sup>1</sup> During the Second Ordinary Assembly of the African Union in 2003, African governments pledged in Maputo to allocate at least 10 percent of their national budgets to the agricultural sector in order to achieve 6 percent agricultural growth annually under the CAADP agenda (AU 2003). In 2014, during the Twenty-third assembly of the African Union in Malabo, African governments committed to enhancing investment finance in agriculture, in addition to other commitments (AU 2014).

This paper focuses on institution-centered explanations for public actors' policy decisions, a component of the actor-centered institutionalism. Institution-centered explanations are defined here as those that focus on how the political-institutional environment shape policy decisions. Institutions are broadly conceived as aggregations of rules and incentives that structure strategic interactions among self-interested actors (Bates 1988; North 1990; Scharpf 1997; Williamson 2000; Alt and Alesina 2006). These rules and incentives shape the policy choices that maximize each actor's self-interest. According to Scharpf (1997), the positive and negative incentives associated with institutional rules increase or decrease the payoffs associated with actors' strategies and, thus, the probability of being chosen by self-interested actors. Institutions are seen as sites of cooperation that can help to resolve collective action problems and enhance efficiency or viewed in terms of their coordinating functions (Bates 1988; North 1990; Williamson 2000; Alt and Alesina 2006). The structure of institutions can affect the effectiveness of policy processes to resolve collective action problems by way of rules that define the composition of actors and their institutional capabilities (Scharpf 1997). While the modes of interaction between actors are structured by the presence or absence of rules, the features of these interactions are determined by both rules and the actual (and broader) institutional setting within which interactions occur. In other words, the games played in policy processes are to a great extent defined by the specific features of the institutions associated with the policy processes.

Actor-centered institutionalism views the institutional setting as having the most important influences on the factors driving the framework's explanations—that is actor characteristics, actor constellations, and modes of interaction. However, the proposition here is that, while institutions produce and constrain options and shape perceptions and preferences, they do not directly determine policy choices and outcomes (Koelble 1995; Weingast 1996; Scharpf 1997; 2000; Lane and Ersson 2000; Shepsle 2008; Jackson 2010). In our study, the political-institutional setting—that is, features of political and budget institutions—is conceptualized as an indirect determinant of policy choices and out-comes or secondary intervening factor.

Political institutions, such as electoral rules—whether legislators are elected in large districts with proportional representation or small districts with majority rule—can affect the incentives of actors in the budget process and therefore shape their preferences. Similarly, budget institutions, such as the Medium Term Expenditure Framework (MTEF), can also impose constraints on the actions of actors and define the rules of interaction between them (Scartascini 2008; Scartascini and Stein 2009). We discuss each type of institution in turn.

### **Political Institutions**

Different political institutions—such as presidential versus parliamentary systems, proportional versus majoritarian representation, federal versus unitary government structures, and political governance on the spectrum from full autocracy to full democracy—can have implications on how public funds are allocated. Some of the rules governing the budgetary process may even be constitutionally enshrined, and these constitutional stipulations on fiscal processes tend to differ systematically between different political institutions.

In many cases, constitutions in presidential systems imbue greater power to the parliament in budgetary matters than do constitutions of parliamentary systems. So it is with Nigeria, a presidential system, in which the National Assembly has, for example, unrestricted amendment rights on the draft budget bill tabled by the executive, the ability to veto the appointment of an Auditor-General (whose mandate and scope is already fairly restricted by the operative public finance laws (McKie and van de Walle 2010)), and strong ability to investigate the executive appropriation of funds (Wehner 2002). In these aspects, the Nigerian constitution imbues the legislative branch with significantly greater control over public expenditure matters than do other African constitutions. Nonetheless, other provisions of the constitution on the budget process limit the incentive the executive has to negotiate the budget with the legislative. For example, since 2003 the National Assembly has had only five weeks in which to consider the executive's draft budget before the beginning of the fiscal year. If the legislators have not adopted the budget by then, the president may continue to spend resources at the same level as



the previous year for up to six months (NDI 2003). Subsequently, the budget and research office of the National Assembly has sought to expand the time period in which to review the draft budget to three months (Johnson and Stapenhurst 2008).

Differences in budget processes across political institutions also entail different public expenditure patterns across them. Several studies have examined the way that political institutions affect patterns of government spending (see for example, Austen-Smith 2000; Lizzeri and P rsico 2001; Milesi Ferretti, Perotti, and Rostagno 2002; Iversen and Soskice 2006; Persson, Roland, and Tabellini 2007). In general, these studies suggest that proportional electoral representation and parliamentary systems will be associated with higher spending levels and redistribution compared to majoritarian voting and presidential systems. Chang (2008) shows how politicians' preferences are conditioned by institutions, such as electoral systems and veto players, during elections to influence budget outcomes. The study shows that electoral budget cycles take the form of higher district specific spending with majoritarian voting systems, and higher social welfare spending with proportional representation systems. While the study does not find any significant difference in the size of budgetary cycles between the two types of systems, it does find that the size of budgetary cycles is reduced with multiple veto players.

Federal and unitary systems are also two types of important political systems, with unitary systems predominating among African countries. Nigeria has one of few the federal systems in Africa, the first to have such a system on the continent. Osayimwese and Iyare (1991) suggest that Nigeria's "federal character" was in great part responsible for excessive spending which was allocated to place public sector staff in the various jurisdictions, due to the stated need for ethnic balance. This tendency to allocate resources to subnational units, in turn, incentivized appeals for the creation of new subnational units at the state and local government levels in the course of Nigeria's recent history, resulting in inefficient spending on the fixed costs of subnational government establishment (Aiyede 2009).

The broad political governance characteristics of a country, for example its locus on the autocracy-democracy spectrum, can influence the size and composition of public spending, along with other types of public policy. Collier (1996) points out that, prior to the advent of democracy in Nigeria, absent a democratic system in the country that truly reins in government's ability to override checks and balances within the system, it is impossible for other branches to pursue public policies against the wishes of the highest executive.

As regards the influence of such political institutions specifically on agricultural policies, the research evidence is limited, but mounting. Most of the studies have focused on agricultural protection, and find with mixed results. Bates (1983) and Lindert (1991) underscore the important role of the institutional setting in determining agricultural protection patterns. Beghin, Foster, and Kherallah (1996) show that pluralism is related to higher levels of agricultural protection, although non-linearly. However, with further democratization, agricultural protection somewhat declines. On the other hand, Swinnen et al. (2000) provide evidence that more democracy does not lead to underinvestment in public agricultural research. To clarify and isolate the role of democracy and institutional quality, Olper (2001) reveals that the quality of institutions that protect and enforce property rights is an important determining factor in agricultural taxation and protection policy patterns, again with a strong non-linear effect.

Swinnen, Banerjee, and de Gorter (2001) show that changes in electoral rules that favored agriculture led to higher protectionism. Similarly, Bates and Block (2010) find that where there is electoral competition together with a large share of rural people in the voting population, African politicians respond to electoral incentives by supporting rural farmers while resisting political pressures from urban consumers. In a study on India, S  ez and Sinha (2010) examine the role of institutional, partisan, and political settings in shaping public spending decisions across expenditure types and states, and present interesting findings with respect to irrigation and non-irrigated agriculture expenditure categories: Only political factors had an effect on public spending for these two categories, but the effect differs—spending for irrigation increased during elections while spending on other agriculture declined significantly. This spending pattern, the authors explain, follows from the fact that irrigation

is the single largest expenditure of farmers in India, is a lumpy and visible public good, and, thus, generates stronger political returns to public investment.

### **Budget Institutions**

Similar to political institutions, budget institutions also lay out the rules of the game for interactions between different actors in the budget process or place constraints on these exchanges, thereby influencing public spending outcomes (Scartascini and Stein 2009). Budget institutions are the rules, procedures, and practices by which the budget's drafting, approval, and implementation takes place (Alesina and Perotti 1996). In general, budget institutions are the set of formal and informal rules and principles governing the budget process within the executive and the legislature (von Hagen 2007a). These institutions allocate strategic influence and create or hamper opportunities for collusion, or ensure the accountability of individual actors. A converging body of evidence suggests that budget procedures and institutions have substantial influence on budget outcomes across different regions, for example in the European Union (von Hagen 1992; von Hagen and Harden 1994; Hallerberg and Wolff 2008; Mulas-Granados, Onrubia, Salinas-Jeménez 2009), and in the U.S. (Alt and Lowry 1994; Porteba 1994; Bohn and Inman 1996). Most of these studies focus on the issue of budget deficits.

More limited evidence exists in the context of developing countries. To explain cross-country differences in budget positions in Latin America, Alesina et al. (1999) focus on the procedures that make possible the formulation, approval, and implementation of the budget in a large sample of countries in the region. Their findings suggest that the characteristics of budget procedures strongly influence budget outcomes. In particular, procedures that constrain the deficit, that are more hierarchical, and that are transparent, result in lower primary deficits. Hierarchical procedures are those that, for example, limit the role of the legislature in increasing the budget size and deficit, and provide a strong role to a single individual, usually the treasury minister, in budget negotiations, thereby restraining the powers of spending by line ministers. Hierarchical procedures contrast with collegial procedures, which allow for a greater balance of power among actors in the budget process. Filc and Scartascini (2005) constructed a composite index of budget institutions defined by three main institutions, namely fiscal rules, hierarchical procedures, and transparent procedures. Their findings are consistent with Alesina et al. (1999)—budget procedures and fiscal rules have a significant influence on fiscal balances.

One type of fiscal rule is the medium-term expenditure framework (MTEF), which is a comprehensive spending plan that links policy priorities to the allocation of resources within a fiscal framework typically over a three-year forward planning horizon. Ideally, a functioning MTEF offers opportunities to make budget procedures well-suited to incentives of different actors within the budget process (Shah 2007). Campos and Pradhan (1996) examine how institutional arrangements, including the MTEF, influence the incentives that govern the magnitude, allocation, and use of public resources in Australia, Ghana, Indonesia, Malawi, New Zealand, Thailand, and Uganda. The authors highlight that their study does not cover a key issue—the conditions under which better institutional arrangements translate to other contexts. For example, while the MTEF functioned in Australia, they suggest that how well it might function in a developing country requires in-depth analysis across countries.

Budget institutions are not sufficient to guarantee budget discipline in developing countries that are characterized by weak institutional and governance quality. In such countries, policymakers can strategically use off-budget funds for government expenditure allocations. Policymakers tend to use off-budget funds to bypass the rules of the budget process and protect their expenditure decisions against the challenges of conflicting interests (von Hagen 2007a). In such weak governance contexts, budget rules that seek to systematize the distribution of public funds vertically—for example between central and local government—or horizontally—across different local governments in a country, can also be bypassed or applied only partially. In Nigeria, historically allocation formula for funds out of the federation budget were not fully adhered to (Ekpo, 1994). A comparison of statutory allocation to the states with the amount of federal funds these states actually received identified clear inconsistencies. These are not simply explained by macro-level budgetary shortfalls, since some states

received more than the formula suggests, while others received less. This is all the graver given the fact that states relied heavily on these transfers for their budgetary resources.

### **3. DATA AND METHODOLOGY**

#### **Empirical Approach**

A single-case, embedded case study design which involves multiple sub-units of analysis is appropriate in the context of Nigeria's complex federal and decentralized structure: there are 36 states, the Federal Capital Territory, and 774 Local Government Areas (LGAs) in the country. The empirical qualitative analysis described in this paper focuses on case studies of three states (Cross River, Niger, and Ondo) and of three LGAs within each case study state (Akamkpa, Wushishi, and Odigbo, respectively). These states were selected on the basis of the importance of agriculture in their economies, a need to obtain perspectives from different geographical zones in Nigeria, and the fact that public expenditure management systems are relatively well developed in comparison with other states in Nigeria. The case study LGAs were selected based on similar criteria, including relevance of agriculture to the LGA's economy; anticipated good cooperation of the relevant LGA government offices; and the core socioeconomic, infrastructure, and agroclimatic characteristics that make the selected LGA fairly typical in the state. On the subject of the choice of an embedded case design, this study is in line with the suggestion of Snyder (2001) that a subnational comparative method can increase the ability to describe and theorize complex political decision-making processes. In Nigeria, the three tiers of government—federal, state, and local—have a shared responsibility for agricultural development as mandated by the Constitution.

#### **Data**

The technique underlying the primary data collection, which took place in September 2013, involved conducting in-depth semi-structured key informant interviews with agriculture-related officials in the three case study states, and in the corresponding LGAs. The subnational interview instrument consisted of four modules and about 20 open-ended questions. The first module covered questions around the guiding policies, strategies, and plans for supporting agriculture in each state and LGA. The second module focused on specific agricultural projects or programs in order to learn more about the characteristics of agricultural investments and how such features influence the incentives of policymakers. The third module shed light on the key actors involved in agriculture across government tiers (state and local government levels) and agencies within a tier, as well as the way they function and interact with each other. The fourth module focused on questions about the budget process in agriculture.

Key informants at the subnational level included individuals from government parastatals and agencies, such as the Ministries of Agriculture; Ministries of Finance; Ministries of Local Government; Budget, Monitoring, and Evaluation departments; state Planning Commissions; Accountant-General offices; Internal Revenue Service boards; state offices for the Federal Ministry of Agriculture and Rural Development; and Agricultural Development Projects. Other public officials involved with donor projects in these states were also interviewed. The responses were recorded and transcribed, resulting in about 30 interview transcripts and approximately 600 pages of transcriptions.

Empirical material from the key informant interviews were analyzed with the NVivo 11 software. The steps employed included preliminary data exploration by reading through the transcripts and writing memos; coding the data by segmenting and labeling text; using codes to develop themes by aggregating similar codes; and developing a narrative. Empirical data were also supplemented with a desk review of key government, donor, and other documents.

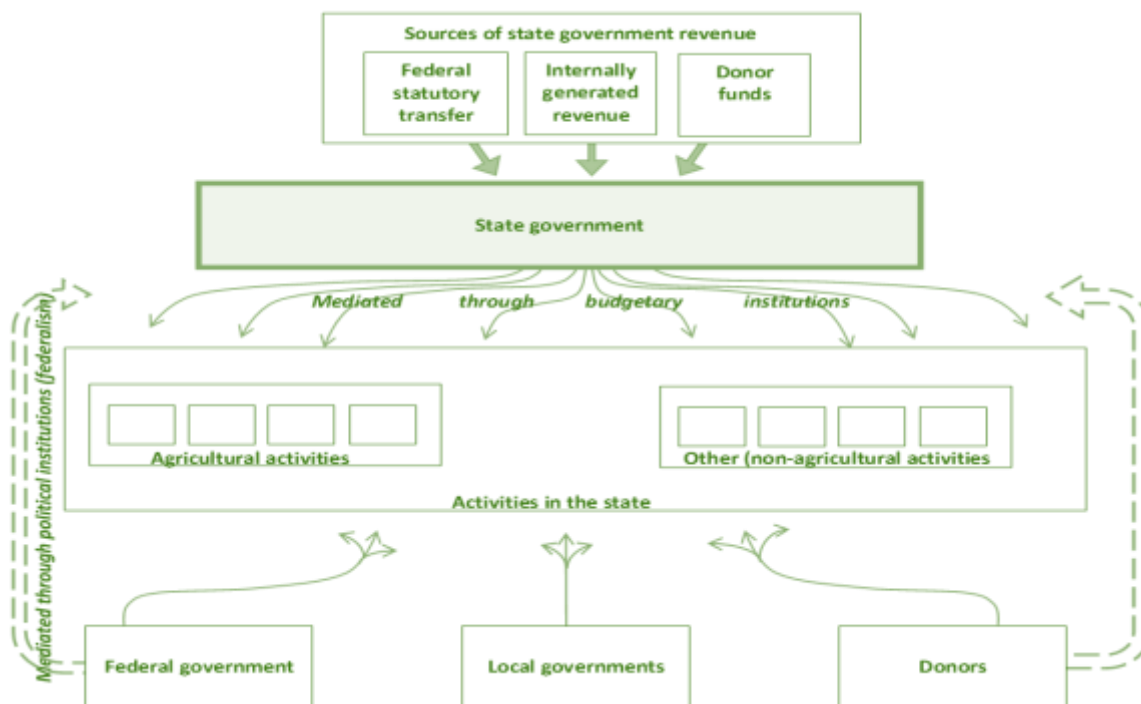
To test for hypothesized causal mechanisms of the role of institutions in shaping public agricultural expenditures, process tracing is employed. Process tracing helps to identify the intervening causal steps or process and causal mechanisms between explanatory variables—actors and institutions—and the dependent variable—public agricultural expenditure allocations (George and Bennett 2005; Gerring 2007; Collier 2011; Beach and Pedersen 2013).

#### 4. EMPIRICAL FINDINGS IN SUBNATIONAL JURISDICTIONS—STATES AND LOCAL GOVERNMENT AREAS

In this section, we consider the two types of institutions that are most salient in influencing public resource allocations to agriculture. The first are budgetary institutions, manifested in the rules and procedures underlying the budget process in subnational jurisdictions in Nigeria. The second is the political institution of federalism, which is the foundation for interactions between federal, state, and local governments in the country. Figure 1 is a simplified illustration of how these two institutions feature in public resource allocations by a state-level government (that of a local government is analogous, but not shown here for economy of space).

Resource allocations made by a state government depend primarily on the revenues at its disposal. The process of spending these funds—the actors, their preferences, constraints, and interactions with each other—is mediated by the budgetary institutions which oversee the public finance process. Similarly, the influence of the federal government over public expenditures undertaken by state governments is mediated by political institutions which govern the resource allocation process—that is, the various features of federalism as practiced in Nigeria. The extent to which federalism creates opportunities for the tier below the state (local government) to influence state spending is minimal, and therefore not featured in Figure 1.

Figure 1. Budget and political institutions mediating public expenditures at the state level



Source: Authors' depiction.

By way of background, Tables 1 to 3 present the relative weight of public expenditures within core agricultural categories in the case study states. One of the immediately noticeable features from these statistics is that public agricultural spending—and even budgets—reflect a fairly high degree of concentration in specific activities. This is true even in states where many activities considered fairly basic and core to agricultural spending have no expenditure allocation or were not budgeted for in various years—for example, with livestock development in Niger state in 2011. A second noticeable feature from Tables 1 to 3 is the extraordinarily high discrepancy between the budget and actual expenditures. The potential reasons for this will be discussed in greater detail in this section.

Table 1. Composition of agricultural expenditures in Niger State, budgeted and actual expenditure, 2008 to 2012, percent share by category

Category	2008		2009		2010		2011		2012	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<i>Share of crop development</i>										
Agrochemicals	0.2	0.0	0.0	86.2	0.6	0.1	2.1	0.0	0.7	0.0
Tractor hire program	62.3	80.3	0.0	0.0	8.9	0.0	4.2	0.0	35.5	0.0
Home economics multipurpose	0.2	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
College of agriculture	5.8	0.2	7.0	4.6	4.3	0.0	8.4	0.0	10.6	0.0
Fertilizer procurement	28.8	19.5	93.0	9.3	74.6	99.9	84.0	88.6	53.2	98.6
Nigerian agricultural insurance corporation	0.1	0.0	0.0	0.0	0.4	0.0	0.0	11.4	0.0	0.0
Research & consultancy	2.6	0.0	0.0	0.0	1.4	0.0	1.3	0.0	0.0	1.4
<i>Share of livestock development</i>										
Grazing reserve & range management	6.1	0.0	80.0	0.0	56.3	0.0	16.6	0.0	7.7	0.0
Stock route & control post	4.1	0.0	0.0	0.0	8.3	0.0	27.0	0.0	6.2	0.0
Poultry production	12.1	0.0	20.0	0.0	9.9	0.0	18.4	0.0	23.1	0.0
Regional cattle market	69.6	0.0	0.0	0.0	13.3	0.0	0.0	0.0	0.0	0.0
Livestock improvement & breeding center	8.1	0.0	0.0	0.0	11.9	0.0	36.8	0.0	61.5	100.0
Research & consultancy	0.0	0.0	0.0	0.0	0.3	100.0	1.2	0.0	1.5	0.0
<i>Share of forestry development</i>										
Pulpwood plantation	33.3	0.0	0.0	0.0	27.8	0.0	22.2	0.0	0.0	0.0
Forest plant seed production	66.7	100.0	100.0	0.0	33.3	0.0	22.2	0.0	37.5	0.0
Industrial wood production	0.0	0.0	0.0	0.0	39.0	0.0	55.6	0.0	62.5	0.0
<i>Share of fishery development</i>										
Fish conservation and multiplication	0.0	0.0	0.0	0.0	73.3	100.0	100.0	0.0	100.0	0.0
Fishing inputs	0.0	0.0	0.0	0.0	26.7	0.0	0.0	0.0	0.0	0.0
Oxbow lakes, dams	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Adapted from Olomola et al. 2014.

Table 2. Composition of agricultural expenditures in Ondo State, budgeted and actual expenditure, 2008 to 2011, percent share by category

Category	2008		2009		2010		2011	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<i>Share of crop development</i>								
Food crops	13.1	8.8	2.1	1.6	2.7	1.6	2.3	3.8
Extension services	1.4	0.6	0.4	0.0	0.0	0.0	0.3	0.0
Tree crops	21.1	14.3	11.2	6.5	5.9	6.3	25.9	37.1
Agricultural inputs	39.9	59.9	66.9	78.6	61.9	49.4	9.0	26.0
Agricultural engineering	24.5	16.4	19.5	13.3	29.6	42.7	62.6	33.1
<i>Share of livestock development</i>								
Livestock	34.2	62.7	41.5	53.3	38.8	54.5	20.7	54.9
Veterinary services	65.8	37.3	58.6	46.7	61.2	45.5	79.3	45.1
<i>Share of non-crop and non-livestock activities</i>								
Produce services	10.7	10.8	16.3	16.1	8.4	10.2	14.9	14.5
Forestry	81.3	82.0	52.1	68.3	52.7	68.0	58.1	69.9
Afforestation	1.6	1.5	26.3	8.6	36.8	20.0	10.6	8.9
Agroclimatology	4.8	4.1	3.4	2.7	1.5	1.0	11.7	5.6
Fishery	1.6	1.6	2.1	4.3	0.6	0.8	4.7	1.1
<i>Share of rural development</i>								
Rural development	0.0	0.0	9.0	10.0	7.9	13.6	11.6	22.2
Agricultural service unit	100.0	100.0	91.0	90.0	92.1	86.4	88.4	77.8
<i>Share of general administration</i>								
Administration and finance	65.7	38.9	20.7	100.0	17.2	70.0	80.4	0.0
Planning and research	34.3	61.1	79.4	0.0	82.8	30.0	19.6	100.0

Source: Adapted from Olomola et al. 2014.



Table 3. Composition of agricultural expenditures in Cross River State, budgeted and actual, 2008 to 2012, percent share by category

	2008		2009		2010		2011		2012	
Category	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<i>Share of total crop development</i>										
Seeds	5.7	0.0	6.7	7.2	22.7	0.0	0.0	0.0	10.4	0.0
Fertilizers	4.0	0.0	33.3	20.9	28.7	100.0	89.5	0.0	41.4	100.0
Agrochemicals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Irrigation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	90.3	100.0	60.0	71.9	48.6	0.0	10.6	100.0	48.2	0.0
<i>Share of total general services</i>										
Research	5.0	0.0	14.1	50.8	6.6	0.0	3.6	0.0	4.5	0.0
Extension	0.0	100.0	69.9	0.0	14.0	9.8	6.0	0.0	23.8	0.0
Credit program	95.0	0.0	0.0	0.0	8.6	12.9	1.8	2.1	5.0	7.1
Rural infrastructure	0.0	0.0	10.0	39.7	32.5	48.5	71.0	79.0	45.1	63.9
Agroprocessing	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	1.1	0.0
Advocacy program	0.0	0.0	0.4	0.0	33.7	28.2	16.1	17.9	17.0	24.0
Market development	0.0	0.0	5.6	9.5	4.5	0.6	1.0	1.1	3.6	5.1

Source: Adapted from Olomola et al. 2014.

## BUDGET INSTITUTIONS, AND THE CONSTRAINTS AND OPPORTUNITIES THEY CREATE FOR INFLUENCING RESOURCE ALLOCATION

As was discussed, budget institutions have been recognized in developing as well as developed countries as having strong potential to influence budget outcomes. However, research has strongly focused on investigating the effects of various budgetary institutions, laws, and rules, on aggregate fiscal indicators, such as the total budget size or the budget deficit. Of interest here, in contrast, is to discern the effect of budget rules, manifested in the nature of Nigeria's subnational budget process, on public expenditures allocations across competing needs. While this investigation is more indicative rather than conclusive, it offers first insights into how—or more accurately, whether, and to what extent—budget processes matter for public expenditures in the agricultural sector.

There is strikingly little information—or at least, very limited detail—on Nigeria's subnational budget process in the existing peer-reviewed literature. Therefore, in this section we bring together evidence from our fieldwork on the details of Nigeria's subnational budget rules and the budget process that emanates from these rules, and then go on to specifically examine agricultural budgeting and spending within this process. As detailed in Section 3, the fieldwork included interviews with officials in agricultural ministries and agencies, budget and finance departments, budget and finance units within agriculture agencies, and other relevant ministries, departments, and agencies (MDAs). In detailing the budget processes, we draw conclusions with regard to how Nigeria's budget institutions create levers for different actors and stakeholders—higher-tier versus lower-tier officials, executive versus legislative bodies, sectorally specialized, for example agriculture, versus non-sectoral agencies, and political versus bureaucratic agents. While budget institutions create opportunities and constraints for these types of stakeholders to influence public resource allocation, they do not directly dictate the quantity and allocation of agriculture—budget rules and institutions do not have a direct focus on one sector or another. Nonetheless, an understanding of the authority they give to different stakeholders

to influence how public funds are distributed is a first step to our goal of discerning the effect of budget institutions in Nigeria on public expenditures for agriculture at state and local government authority levels.

In each of the two subsections of this section of the paper, in which are described Nigeria's budget institutions at the state and local government levels, respectively, we first provide a brief background to the main sources of revenue that each subnational jurisdictional type has access to. Then we provide a detailed account of the budget rules governing the process of the three phases of budgeting, namely the development of the budget, its legislative approval, and budget execution. Given that the process detailed is derived from field data rather than from documentation of the formal process from central accounts, it reflects a blend between the formal rules governing subnational processes and the empirical realities of the de facto budget process as it plays out in state and local governments.

### **Public Finance Process at the State Level**

States generate internal revenues from two main sources. One is through charges and fees levied on certain state-provided goods and services. Line ministries at state level are responsible for collecting the funds based on their particular sectoral activities, and the processing of these funds is coordinated by the revenue unit in each line ministry. The MDAs do not directly retain the revenue they collect; rather, a Board of Internal Revenue collates the MDA funds collected by the MDA revenue units into a consolidated account. The Board also collects funds from a second source, namely the state's tax bases. Table 4 shows that state's internal revenues make up a very low 4 to 6 percent of total revenue in Niger state, to a higher 9 to 16 percent in Cross River state. This shows that, as in many developing countries, the Nigerian states we examined (and from other evidence, also in other state jurisdictions in the country) do not rely significantly on internally generated revenues for the bulk of their development activities. The same follows for our case study LGAs, although data gaps on revenues and expenditures are substantial at the local government level. Table 4 documents this for our study areas, quite starkly so.

Table 4. Total and internally generated revenues in case study states and LGAs, constant 1990 Naira, millions

Subnational jurisdiction	Revenue variable	2008	2009	2010	2011	2012
<b>Cross River state</b>	Total revenue	2,072.0	1,336.6	1,078.2	1,765.2	1,896.6
	IGR share (%)	8.8	15.4	16.3	11.6	14.7
<b>Niger state</b>	Total revenue	1,306.8	1,428.2	1,178.8	1,767.2	1,634.7
	IGR share (%)	5.7	6.0	6.2	4.6	5.3
<b>Ondo state</b>	Total revenue	2,433.1	2,250.4	1,660.5	2,061.0	2,381.1
	IGR share (%)	5.5	5.5	8.6	8.1	4.4
<b>Akamkpa LGA in Cross River state</b>	Total revenue	54.9	60.5	45.9	0.0	0.0
	IGR share (%)	0.0	0.0	0.0	0.0	0.0
<b>Wushishi LGA in Niger state</b>	Total revenue	35.1	0.1	1.0	72.7	0.0
	IGR share (%)	0.0	0.0	6.5	0.1	0.0
<b>Odigbo LGA in Ondo state</b>	Total revenue	15.5	15.4	23.9	20.0	0.0
	IGR share (%)	0.0	0.0	0.0	0.0	0.0

Source: Adapted from Olomola et al. 2014.

Note: IGR – internally generated revenue.

State revenues accruing through donor funds to the states are held in accounts separate from those that come from domestic sources (both internally generated revenue and intergovernmental fiscal transfers). These accounts dedicated to donor funds are then held by the line ministry to which the donor activities relate. For example, if the donor funds are intended for agriculture, the state Ministry of Agriculture usually holds the account for these funds.

In the first phase of the budget process characterized by executive negotiation and planning, the state's Ministry of Economic Planning and Budget takes on the role as the central budgetary authority. It drafts a broad budget based on state development plans and an appraisal of the past year's budget. This Ministry submits the draft to the state Executive Council (which is the state-level cabinet) for consideration. Once the latter approves it, the Ministry sends out to each line ministry a call circular, which includes each ministry's budget ceiling. The ministries are then called upon to develop detailed budgets within this ceiling. The line ministries each have a department that mirrors in responsibility the state Ministry of Planning and Budget, and these line ministry budget departments conduct the work of developing the detailed line ministry budgets.

The state Ministry of Planning and Budget collates these individual budgets, and the entire compiled budget has to be defended before the so-called Pre-treasury Board, which consists of officials from the state Ministry of Budget and the state Ministry of Finance, including the Accountant-General. Each line ministry is responsible for defending their part of the budget in the Pre-treasury Board meeting. Based on the conclusions from the discussion in this defense, the budget is revised, and eventually submitted by the Ministry of Planning and Budget to the Treasury Board, which is a body chaired by the Governor, and includes the Deputy Governor, Chief of Staff of the Governor, Attorney



General, Commissioner of Finance, Commissioner of Planning and Budget, and other members. After consideration by the treasury board, the budget proceeds again to the state Executive Council for ratification, following which it is sent to the state House of Assembly. Once approved by the state House of Assembly, it is signed by the Governor and becomes the approved budget. The budget is intended to be comprehensive of donor funds supplied to the state, as well as of federal grants that are implemented in partnership with, and pass through, the state.

From the above emerges an interesting feature of Nigeria's state level budget rules, as gleaned from our case studies, namely the relatively small role of the House of Assembly of the state in the budget process. It is apparent that the draft budget makes its way to the state House of Assembly at a fairly late stage in the process, after numerous and repeated iterations take place between the central budgetary authority (the state Ministry of Planning and Budget), the line ministries, the Governor, and other executive bodies, in the context of meetings of the state Executive Council, Treasury Board, Pre-treasury Board, and other encounters. These attributes in one way meet the standard of centralization as discussed in Gollwitzer (2011), in that the legislative members' ability to insert particularistic spending elements into the budget and, thus, contribute to an inflated budget is muted. But on the other hand, centralization is also dampened, given that there are ample opportunities for line ministries to negotiate increases or additions of activities relevant to their agency into the budget, given the high degree of iteration of the Ministry of Planning and Budget with line ministries, not only in bilateral ways but through the state Executive Council budget meeting. The budget institutions at the state level thus suggest that agricultural interests emerging from members of the state House of Assembly are unlikely to receive a prominent hearing in the articulation of the budget. On the other hand, given the multiple entry points executive bodies have to influence the process of budget formulation and revision, agricultural interests in the executive role of government—for example, through the Commissioner for Agriculture (head of the state Ministry of Agriculture)—have opportunities to be featured in the budget.

As important as budget institutions are that govern the first two phases of the budget process—the negotiation and planning phase, and the legislative approval phase (Gollwitzer 2010)—the budget institutions that feature in the third and last phase, namely budget implementation, are crucial for how resources are ultimately allocated. We find from our fieldwork that aspects of the budget institutions that govern the processes after a budget has begun to be executed create excessive flexibility to make adjustments, thus rendering the approved budget not adequately informative about intended expenditures.

More specifically, well into the budget year and long after it has begun to be executed, two types of adjustments may be made to it. One type of adjustment results in the so-called reordered budget. Another is the creation of the supplemental budget. The budget aggregates, i.e. totals, of the initially approved budget and reordered budget are equal, but the latter reflects a re-prioritization across ministries and agencies, so that it will reflect larger amounts than the approved budget for certain MDAs, and smaller amounts for other MDAs. On the other hand, the supplementary budget's aggregate total is an increase from the aggregate of the approved budget. Both reordered and supplementary budgets have to be re-approved by the state House of Assembly. In our case studies, the use of reordered and supplementary budgets are not rare occasions used only in emergency situations. Rather, these budget reformulations appear to be applied as a tool to make revisions based on changing priorities midstream in the course of budget execution, or priorities that have not been able to assert themselves at earlier stages of the budget process. The use of reordered and supplementary budgets for such purposes and at more than rare occasions not only indicates poor budget discipline, but also raises the specter that the standard elements of the budget process are only weakly able to inform ultimate public resource allocation.

It is only in the stage of budget execution that the state-level Ministry of Finance begins to play a central role, albeit only to a limited extent in terms of resource allocation decisions, and rather mostly in a procedural manner. The state Ministry of Finance usually has four main departments. The Finance and Administration Department is responsible for keeping track of government personnel in the state. The Accounts Department manages the different accounts used to deposit state public funds. Handling state-level borrowing from private capital markets is the responsibility of the Debt Management Department. The department that has the bulk of the ministry's work, however, is the Expenditure Department. Its responsibility is to release funds that are approved for specific projects or—as they are commonly referred to in public finance, and in this context, heads of—line ministries.

Funds released by the state Ministry of Finance to a line ministry pass through the line ministry's Department of Finance and Administration, for further processing to reach the line department associated with the relevant project for which the funds are intended. The process of funds release differs by type of public expenditures. For salaries, the payment of funds is automatic and based on existing personnel. However, if a state line ministry wants to hire more personnel, they first need to make that request to the Governor. If the Governor approves, the new staff will be recruited, and once they are employed and become staff, the salary expenditures on them proceed as with the existing personnel through automatic releases of funds from the state Ministry of Finance. These rules that drive resource allocation for personnel reveal a dominant role played by the Governor on how much public spending goes to staffing across ministries, through the Governor's strong authority on the administrative decision-making over personnel matters.

A second category of public expenditures are small operational costs. The funds for these are released by the state Ministry of Finance to each line ministry or agency on a monthly basis.

Another category of expenditures is for capital and operational outlays associated with projects and initiatives. Individual line ministries—in particular, the department seeking funds for its projects—initiate the process by submitting to their Permanent Secretary or Commissioner a request for funds in relation to specific projects, or heads. Fund requests can be for larger projects such as purchase of oil palm seedlings on a large scale, or for smaller needs, for example purchase of a generator for an agency's office. The budget rule initially used to be one in which releases from the state Ministry of Finance to the line ministry for projects were made on a fixed periodicity. However, given that some agencies had limited absorptive capacity while others spent funds more speedily, the process was revised so that agencies would submit their project requests for funding on an as-needs-be basis. This request administratively passes through the line ministry's Department of Finance, for administrative processing prior to the request leaving the line ministry. Prior to submission of the request to the state Ministry of Finance, the Commissioner must approve the release, and if the commissioner supports it, in turn he or she must gain approval of the Governor, before funds for the heads can be released. After the project and request has passed the Governor's muster, the Commissioner submits the request to the Ministry of Finance.

The revision of the budget institutional set-up from one in which funds were channeled on a fixed time-period basis to providing funds on a project-by-project basis clearly increases the entry points at which funding expenditures can be influenced and determined. With the ability of the stakeholders to intervene and approve funds at the fairly micro level of a project, budget institutions enable fairly fine-grained changes in public resource allocation away from the initial budget. Budget institutions that enable project-by-project intervention in the fund release process appear to mesh well with the fact that senior officials tend to often prioritize projects, rather than merely holding priorities over sectors. While in much of the literature that examines priorities of public investments there is a preoccupation with identifying the economic returns to public spending in alternative sectors (for example, agriculture versus health versus road infrastructure), from our empirical data in Nigerian states and local governments, we find that political leaders commonly hold priorities over alternative projects

rather than over alternative sectors. The prioritization in funding release within agriculture seems to reflect this, as seen in the remarks of a Ministry of Finance official: *“there is agric input supply, this is an MDA majorly concerned with distribution of agro chemicals; when they request, we also release funds for it. And there are some other activities, like the one I mentioned to you the other time, the cocoa revolution, we release funds for it fast.”*

Budget institutions also generally reflect fairly hierarchical rules on the release of non-personnel project funds: Each fund request requires approval within the chain of command inside the line ministry, and finally approval by the Governor, before consideration of the request by the state Ministry of Finance. The latter assesses each request among others by comparing it to the amount for that project as per the budget. If the amount requested is larger than what was budgeted for it, or if a project was never budgeted for, there are multiple ways that it can still be accommodated. For adjustments of significant size, a revised version of the budget—as described earlier, either a reordered budget that reduces some budget items in order to increase other budget items, or a supplementary budget that results in an expansion of the overall budget through additions or increases of certain activities—may be drafted. (For example, in one of the states, an agency to provide agricultural inputs and services to attract more youth to the sector had its budget cut by half in the process of the development of a reordered budget.) Alternatively, consideration is given to fund it on the basis of a contingency cost item already included in the initial approved budget.

A budget or finance official of a state Ministry of Agriculture admits that frequent budget adjustments after implementation begins are a sign of a too casual budget formulation process, but also a consequence of uncertainties in funding availability. With regard to the use of reordered budgeting, the official says: *“it appears that if we had planned our budget very well, if we had had the indices to plan it very well, that might not happen. But be that as it may, in this part of the world, in this part of Nigeria [...] where we don’t have total control over the money we are receiving, we discover that at the end of the [year] or probably before the end of the year, funds can be moved from one area to another.”* Another budget or finance officer of the state Ministry of Agriculture points out that the state Ministry of Planning and Budget uses the reordered budget tool to draw funds away from heads that are underspending. After the fact, the line ministry, for example Agriculture, will subsequently be informed about the areas where amounts were reduced or increased in the reordered budget. In our case studies, reordered budgets were developed typically in the last quarter. In one case for which we had specific information on the month of completion, it was in December. Given that Nigeria’s fiscal year coincides with the calendar year, this means that the final, reordered budget was developed at the time when all actual spending would have been completed. In such cases, the budget can hardly be considered as a blueprint for planning future expenditures, but rather it documents actual expenditures ex post facto.

Extremely high discretionary flexibility is built into budget rules through the process of how situations can be handled when a request, if honored without further adjustment, would create an inconsistency between the budget and actual expenditures. Also, the speed and efficiency with which a request is processed can differ, affecting ability to implement projects. The level of efficiency that the Ministry of Finance is willing to exert strongly depends on the importance of the request to the currently governing administration at the state level (usually this refers to the Governor)—as articulated by one finance officer: *“for capital projects, especially the ones that government gives a lot of priority, when it comes sometimes we treat it dispatch. Like anything concerning health, in this particular administration now, we dispatch.”* Once the state Ministry of Finance releases a warrant, the warrant goes to the state Accountant-General’s office, which will then produce a check for the projects, a process referred to as cashing back. The Accountant-General may not cash back all warrants, as the amount cashed back will depend on the overall financial position of the state.

When it comes to capital expenditures that are to be financed through donor funds—which are usually tied to specific sectors and activities—the process of spending these funds follows a different process than described above. With donor funds, the discretion on release on the part of the state Ministry of

Finance and to a great extent of the Governor are fairly muted. The line ministry that carries out the implementation of the donor project withdraws the funds out of the dedicated account they are kept in. While the state Ministry of Finance compiles the necessary paperwork, it does not substantively evaluate funding requests the way it does for those projects to be funded out of domestic revenue sources (both internally generated revenues and funds from the federal statutory allocations for the state).

The process following the execution of the budget involves again the same state ministry that was responsible for drafting the budget, namely the Ministry of Economic Planning and Budget. This ministry's Department of Monitoring and Evaluation is tasked with assessing the quality and quantity of activities that have been financed through released funds. This is done in addition to monitoring and evaluation conducted by line ministries themselves, such as through their respective Department of Planning, Research, and Statistics. While the planning and budget ministry and departments conduct monitoring and evaluation in order to assess the substantive quality of executed budgets, the state Auditor-General conducts the task of reviewing the state's financial statements.

### **Public Finance Process at the Local Government Level**

Local governments have several sources of revenue. Two sources are from higher tiers of government. These include funds due local governments from federal statutory allocations—the central source of revenue for government bodies in Nigeria, which is highly reliant on proceeds from crude oil. Intergovernmental fiscal transfers also include funds from state governments, in particular, 10 percent of each state's internally generated governments are supposed to be distributed to the local governments in that state. Another source of revenue for local governments are their internally generated revenues. These revenues are collected on a daily basis by staff of the local government Treasury Department's revenue unit, and helped in the process by the supervisory councilors. Based on local government's tax bases, they collect taxes from the users of market stalls and motor parks, and from certain businesses. Internally generated revenues also stem from some of the line departments that collect user fees, such as the local government Department of Health, which charges for certain services and drugs, the Works Department, which may rent out graders, or the Community Department, which generates revenue from registering clubs and associations. Agriculture-related sources of internally generated revenues include users of agricultural market stalls, local government sales of seedlings, and rental of tractors, among others. A third source of local government revenues are donor projects. Usually donor-funded projects, such as the Third National Fadama Project (Fadama III), do not pass through the local government Treasury Department and its accounts, although the local government Treasurer is a signatory to these accounts, as is the local government head of the line department to which the project relates, such as agriculture in the case of Fadama III. Rather, donor projects maintain their own separate accounts.

The process of prioritization of local government expenditures to be funded out of intergovernmental fiscal transfers, which are held in the State Joint Local Government Allocation Committee Account, has multiple stages. Local governments have Budget Departments (in some local government areas, the Budget Department is merged with the Treasury Department). Analogous to state Ministries of Budget, at the local government the Department of Budget is responsible for drafting the local government budget. However, in our interviews on the budget process at the local government level, there was an uneven accounting with regard to their role in prioritizing local government budgets. In one case where a more intensive process at the local government was accounted, the budget and financial officials described a process in which participatory budgeting was practiced, with the Budget Department consulting with community leaders and other community members in the local government to identify their needs for publicly-provided goods and services.



Upon receipt from the state government of the annual budget call circular, the local government's Budget Department writes letters to each line department of the local government, for the line departments to inform the Budget Department of their respective recurrent expenditures, based on the costs of personnel and overheads. Prior to populating the draft budget based on the call circular and the information compiled from the community consultations, the Budget Department official meets with each line department official to communicate to them what needs were raised in the citizen consultation. After arriving at a consensus about which community needs will be incorporated into the draft budget and which will not be, and which other projects are pointed out by the line department as necessary, the line department makes an estimation of the cost implications of each project included in the budget. The Budget Department finalizes the draft budget after going through this exercise with each department, and submits the budget to the state Ministry of Local Government. After the state Ministry of Local Government has reviewed the budget, the local government (including the Budget Department) is called to go to the state capital in order to defend their budget. It is, interestingly, only after this budget defense that the local government is given a budget ceiling. This ceiling (which the local official respondents refer to as base) is for the totality of the local government budget, rather than by sector or by department.

Based on the ceiling and other deliberations during the budget defense, they revise the budget to adhere to the ceiling, and submit the revised proposal to the state Planning Commission, or state Ministry of Budget and Planning. After any further instructions from the Planning Commission, the local government undertakes further adjustments, and the budget goes to the state House of Assembly, and a second defense of the revised budget is made. It is of note that the approval process of the legislative arm does not involve the Local Government Council, but rather the higher (that is, state) legislative body.

In parallel with this process, significant prioritization of local government budgets takes place at the state level—despite the fact that intergovernmental fiscal transfers are considered to be untied grants that local governments are to use at their discretion. The state-level deliberation, however, does include local government officials from one local government in the state who are there to represent all other local governments. More specifically, a meeting is held between four key officers: One is the President of all local government Directors of Treasury. This person is a Treasury Director for one of the local governments, and has been selected to represent all other local government Treasury Directors in state-wide discussions on local government financial matters. The second is the head of the state chapter of the Association of Local Governments of Nigeria (ALGON). ALGON's general assembly has as members all 774 local government Chairmen, and each state chapter consists of all local government Chairmen of that state. The state chapter head is elected by the state's local government Chairmen from among themselves. The third is the state Commissioner of the Ministry of Local Government, and the fourth is his or her principal assistant. In this meeting the two local government level officials are informed about the total funds available from federal statutory allocations for local governments in the state, and the four hold a preliminary discussion on how much of this will be allocated to salaries, how much to capital expenditures, and other expenditures.

A second stage of prioritization involves all local governments in the state, but still also state level actors. It takes place between officials of the state Ministry of Local Government, the state Ministry of Finance, and the Departments of Finance of each local government in the state. This meeting is referred to as a pre-Joint Allocation Account Committee meeting, during which the participants further deepen the discussion as to how the funds dedicated to each local government are going to be applied by economic use—for example, how much is used toward paying salaries and how much toward implementation of capital projects. The pre-Joint Allocation Account Committee meeting is followed in a third stage by the so-called main Joint Allocation Account Committee meeting, which is chaired by the Commissioner of the state Ministry of Local Government, and, in addition to the participants of the pre-Joint Allocation Account Committee meeting, also includes as participants all

local government Chairmen. In the main Joint Allocation Account Committee meeting, adjustments can be made to the budget allocation decisions taken during the pre-Joint Allocation Account Committee meeting, this time with the local government political heads weighing in.

The state government continues to take a lead role in the management and disbursement of funds for local governments, even after the prioritization exercises have been concluded in the above three stages. In particular, the funds to local governments from higher-tier governments are managed by the state-level Ministries of Local Government. The Ministry of Local Government provides funds to local governments on a project-by-project basis. The local government Chairmen provide to the state Ministry of Local Government a list and description of all the projects they seek to carry out in their respective local government areas. The Ministry of Local Government in many cases gets directly involved in the appraisal and estimation of the project costs, sending technical staff to the local government to make assessments of the planned projects. For example, in the case of a public works project, for example, construction of a building, the state Commissioner of the Ministry of Local Government meets with the local government Chairman and an engineer from the state to discuss the technical and cost-related aspects of the construction. The Ministry of Local Government not only considers the technical merits of a project, but also whether the project funds requested were already accounted for in the local government's budget. If their size exceeds what was budgeted for, the concerned line department of the local government must in writing request approval from the Ministry of Local Government for a so-called authority to incur additional expenditures (AIE).

After a conclusion is reached on the expenditures needed to implement a project, and after the Joint Allocation Committee meetings that more widely discuss resource allocation out of the Joint Allocation Account Committee account, these funds are then disbursed from a project account, usually on a quarterly basis. Funds exceeding 10 million Naira are credited to the local government via an e-pay system, while checks for project funds lower than that can be physically collected. These funds then reach the relevant local government line departments after passing through the local government's Treasury Department (previously these used to be referred to as Finance Departments), in particular, through the latter's Accounts Unit.

One reason given for the state level control in disbursement of funds is to minimize misuse and fraud with public funds by local governments. At the local level as well, processes are put in place intended to limit graft and misuse of public funds. For example, funds received by the local government are kept segregated by two main uses, even usually located in two different banks, to avoid that money intended for service delivery is channeled into staff salary accounts. The two segregated accounts are a salary account for the payments of compensation to local government personnel, and a project account, for all other expenditures. Also, heads of Treasury Departments are rotated approximately once a year to a different local government to reduce opportunities for relationship-building between the finance heads, on the one hand, and other government staff in the local government, on the other hand. This is intended to check collusion among these officials on corruptive practices. However, the effectiveness of these mechanisms is not clear.

It is notable that budget rules segment by projects the process of requesting (on the part of the local government), considering and evaluating (on the part of the state), and disbursing (by the state) funds. That is, for example, the local government Department of Agriculture does not receive its funds in one go for the year or half-year, but based on specific projects they want to implement. This segmented approach to budget execution echoes the process at the state level, as described in the subsection above. A critical difference however is that, while the fund release processes of state budgets involve only actors at the same jurisdictional level as the level for which the funding is intended, in this case, the approval process of funds destined to local governments intensively involves higher-tier actors, namely the state. This introduces a strong element of discretionary power on the part of state government officials on local government spending that are officially untied to intergovernmental

fiscal transfers. This discretionary power, then, exists not merely at the sectoral level, but all the way down to the project level. It is also equally notable, however, that state-level involvement manifests itself through the non-sectoral executive bodies, such as the state Ministry of Local Government, state Ministry of Budget and Finance, and the Governor. The line ministries are not involved in the budget process for local governments. However, as will be seen in Section 4, while budget rules do not provide for state involvement in local government budget prioritization, a number of avenues outside of budgetary institutions exist to give line agencies (such as agriculture) a higher tier influence over the public expenditures of line agencies at a lower tier.

After budget execution and funds disbursement has begun, like state governments, local governments also conduct budget performance reviews. The local government Finance Department distributes forms to each line department, the template of which the line departments fill out on a monthly basis with information on their revenues collected and expenditures made. The Budget Department compiles these reports into one consolidated report, generates four copies of report, and every quarter sends one each to three state level bodies—the state level Fiscal Responsibility Commission, the state Planning Commission, and the Inspectorate Division of the state Ministry of Local Government—and retains a copy for itself.

## **FEDERALISM AS A POLITICAL INSTITUTION INFORMING RESOURCE ALLOCATION AND INTERGOVERNMENTAL COORDINATION**

As discussed earlier, political institutions also have implications for how public resources are allocated. While there are several political institutions that could affect public expenditure allocations, this study focuses on the effect of federalism.<sup>2</sup> The functioning of a federal system is to a large extent influenced by the structure of federalism. Federalism creates two sets of intergovernmental relations (Cameron 2001) which help to facilitate coordination in policy planning, design, and implementation. The first is between the central government and subnational governments (vertical) and the second is among subnational governments (horizontal). Of interest is the structure of fiscal federalism which defines the assignment of expenditure responsibilities, assignment of revenue-raising power, taxation, structure of intergovernmental transfers, extent of subnational borrowing; and so on (Ahmad and Brosio 2006). But fiscal federalism also has the potential to add transaction costs and rigidities to the policymaking process (Spiller and Tommasi 2008)—in this case, the public finance process.

Based on the framework of actor-centered institutionalism, we argue that the structure of federalism does not directly influence expenditure allocations, but plays an important role in determining the influence that government tiers have on the public finance process and ultimately on public expenditures. Federalism affects the public finance process through the role that government tiers play in policy planning, design, and implementation processes as well as the nature of exchanges between them. Whether these interactions are cooperative or non-cooperative affects the nature of public expenditure allocations.

In many federal systems, the formal structure of federalism usually differs from how it is practiced. Diverse interests and actors at different tiers of government within federations thus call for analyses that go beyond an examination of formal prescriptions. As indicated earlier, interactions between tiers of government are determined also by the actual (and broader) institutional setting within which interactions take place. Intergovernmental relations in federal systems are more likely to play out at the interface of constitutional rules and the actual realities of the country (Cameron 2001).

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<sup>2</sup> According to Riker (1975), federalism structures the division of powers and responsibilities between a central government and subnational governments in a manner in which each government tier makes final decisions on some responsibilities. Federal systems, however, are institutionally configured in different ways and exist in various forms (Watts 1998; 2001; Galligan 2006).

In the subsections that follow, we provide a background of the formal structure of Nigeria's federalism, specifically fiscal federalism, and examine the implications for subnational public agricultural finance. Here we focus on issues around the assignment of functions and expenditure responsibilities between government tiers; assignment of revenue-raising authority among government tiers; fiscal inequalities; structure of intergovernmental fiscal transfers; role of intergovernmental fiscal institutions; and overdependence of subnational governments on federal transfers. In the context of the restructuring of Federal Ministry of Agriculture and Rural Development (FMARD)—a reform aimed at improving intergovernmental coordination—we make an attempt to understand the actual delineation of roles and expenditure responsibilities between government tiers.<sup>3</sup> Finally, to explore how federalism shapes the incentives and constraints of government tiers and the nature of their interactions to influence public expenditures, we examine coordination among government tiers, particularly in the implementation of the Growth Enhancement Support Scheme (GESS)—a flagship program of the Agricultural Transformation Agenda (ATA).<sup>4</sup>

### **Fiscal Federalism and Implications for Subnational Public Agricultural Finance**

Fiscal federalism provides insights into how tiers of government in a federal system are able to effectively fulfil their functions and expenditure responsibilities. Several instruments, including legal, political, and administrative mechanisms, are used to manage intergovernmental relations in Nigeria. The 1999 Constitution is the formal mechanism which broadly defines legislative powers and expenditure functions of each tier of government in the country. In the Second Schedule, the exclusive legislative list stipulates the areas in which the federal government has exclusive powers to enact laws through the National Assembly. The concurrent legislative list covers the scope of federal and state legislative powers and specifies the areas in which the National Assembly (House of Assembly of the State in the case of state governments) can enact laws for both tiers of government. At the local government level, authority is exercised through Local Government Councils under the leadership of state governments. Under the General Provisions, state governments are authorized to provide “*for the establishment, structure, composition, finance and functions*” of Local Government Councils.

### **Relative functions and expenditure responsibilities**

As it relates to agriculture, the legislative powers of the federal government under the executive legislative list cover fishing and fisheries in non-inland waters as well as trade and commerce of agricultural commodities. On the concurrent legislative list, the federal government's role is limited to: “...*(c) the establishment of research centers for agricultural [including fishery] studies; and (d) the establishment of institutions and bodies for the promotion or financing of industrial, commercial or agricultural projects.*” Legislative powers regarding the development of agriculture is assigned to state governments. As stated in the Constitution: “...*a House of Assembly may make Laws for that State with respect to industrial, commercial or agricultural development of the State.*” While the areas in which the federal government and state governments can legislate upon are specified in the Constitution, individual functions of each tier of government are not listed as is the case for local governments—and therefore are not clear. When roles and responsibilities are not adequately defined, the risks of overlaps or gaps in public agricultural spending can be high. Overlaps or gaps in expenditure responsibilities lead to inefficiencies and compromise accountability across all levels of government.

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<sup>3</sup> Although the Agricultural Transformation Agenda (ATA) was led by the federal government, there was an awareness of the need for coherent public agricultural spending across tiers of government when the agenda was launched (Olomola et al. 2014). For details on other institutional reforms, in addition to the restructuring of FMARD, see Olomola (2016).

<sup>4</sup> The four main initiatives under ATA include: i) Growth Enhancement Support Scheme (GESS); ii) Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending (NIRSAL); iii) Staple Crops Processing Zones; and iv) Commodity-marketing Corporations (Olomola et al. 2014). While ATA was launched by the former (Jonathan) administration, the current (Buhari) administration proposes to build on the successes of ATA, while closing key gaps, through the Agriculture Promotion Policy (2016-2020).



In addition to main functions, the functions of a Local Government Council in participation with the state government are outlined in the Fourth Schedule: “*The functions of a Local Government Council shall include participation of such council in the Government of a State as respects the following matters: (a) the provision and maintenance of primary, adult and vocational education; (b) the development of agriculture and natural resources, other than the exploitation of materials; (c) the provision and maintenance of health services; and (d) such other functions as may be conferred on a local government council by the House of Assembly of the State.*” Local governments are therefore required to participate in the development of agriculture with states without a clear delineation of relative functions. This constitutional ambiguity creates opportunities for state governments to intervene in the autonomy of local governments within their boundaries—hence the discretionary power of state governments over local government spending. As Khemani (2006) argues, ambiguity around the authority and autonomy of local governments influences the extent to which they are able to perform their functions.

### **Revenue-raising powers and fiscal inequalities**

Intergovernmental fiscal relations in Nigeria remains a topic of intense debate. The main areas of contention relate to revenue rights and fiscal jurisdiction; vertical fiscal imbalance across tiers of government; and horizontal fiscal imbalance across state governments (Olomola 1999; Akindele, Olaopa, and Obiyan 2002). The theoretical reasoning of symmetry and asymmetry among constituent units within federal systems (Tarlton 1965) is relevant here. Asymmetry within federations is introduced by differences related to cultural, economic, political, and social factors and can require special arrangements of representation or protection, as is the case in Nigeria.<sup>5</sup> An important dimension pointed out by Watts (2001) is how significant differences in area, population, and wealth affect the relative power and influence of subnational governments in public expenditure decision-making and their interactions with one another as well as with the center. Indeed, this issue is fraught with complexities in Nigeria, with 36 states, one Federal Capital Territory, and 774 Local Government Areas, and against the background of historical tensions between the center and state governments and political differences among states.

The issue of vertical fiscal inequality is highly contested in Nigeria. At the root of the matter is the limited tax-raising powers and revenue rights of subnational governments, since the major sources of tax revenue fall within the federal government’s tax jurisdiction and collection (Olomola 1999; Akindele, Olaopa, and Obiyan 2002). In other words, revenue-raising authority is more centralized than expenditure authority—a view commonly held in federal systems (Smart 2007). The outcome of this is a vertical fiscal gap across government tiers (Shah 2007) or deficiency in subnational government revenues (from their own sources) relative to that of the federal government, which arises from the mismatch between revenue-raising powers and expenditure responsibilities. As this vertical fiscal gap in the country is not sufficiently addressed by intergovernmental fiscal transfers (to be discussed further below), it has created a vertical fiscal imbalance between higher and lower tier governments.<sup>6</sup> Horizontal fiscal inequity across Nigerian states—a function of revenue raising capacities, expenditure responsibilities, and geographic concentration of natural resources—is a parallel problem, although less contentious. This imbalance is a key factor fueling controversy around the principles of revenue sharing among states. Similar to what is done across government tiers, fiscal equalization transfers (Shah 2007; von Hagen 2007b) are used to correct for fiscal gaps among states. Against this backdrop, it is clear that internally-generated revenues of subnational governments are not sufficient to meet expenditure responsibilities, including in agriculture. On average, the share of internally-generated revenue in total revenue of Cross River, Ondo, and Niger states (case study states) was 13.4, 6.4, and

<sup>5</sup> Watts (1998) notes that more recent research has focused attention on empirical examples and implications of constitutional asymmetry among constituent units as well as the extent of the lack of uniformity in constitutional powers.

<sup>6</sup> Shah (2007) author cautions against using vertical fiscal gap and vertical fiscal imbalance interchangeably, noting that a vertical fiscal imbalance takes into consideration an optimal notion of expenditures by different tiers of government and such optimum is hard to measure.

5.6 percent respectively between 2008 and 2012 (Olomola et al. 2014). The situation is similar, but worse, for local governments in the three LGA study areas (see Table 4).

### **Intergovernmental fiscal transfers and institutions**

To bridge vertical fiscal gaps, it is common practice for federal systems like Nigeria to use transfers from higher to lower tiers of government.<sup>7</sup> While intergovernmental fiscal transfers are important as risk-sharing and stabilization mechanisms, their effectiveness depends on the design and enforcement of fiscal transfer arrangements (Vigneault 2007; von Hagen 2007b). Federal statutory transfers in Nigeria come from the federation, value added tax pool, and solid mineral derivation accounts on a monthly basis. The vertical revenue-sharing formula is currently 52.68 percent for the federal government, 26.72 percent for the state governments, and 20.60 percent for the local governments. In the case of allocations from the VAT pool account, 15 percent goes to the federal government, 50 percent to state governments, and 35 percent to local governments. For oil-producing states, such as Ondo State, 13 percent of budgeted oil revenue from the exploitation and extraction of natural resources within their boundaries is allocated to these states from the mineral derivation account.

Analogous to the vertical fiscal gap issue, revenue sharing arrangements between government tiers draws much opposition. State governments, in particular, continuously make calls for the vertical formula to be reviewed and revised to favor them, considering the mismatch between their revenue-raising powers and expenditure responsibilities. To distribute federal statutory allocations among states, the horizontal revenue-sharing formula is based on the principles of equality (40 percent), population (30 percent); internally generated revenue effort (10 percent), land mass and terrain (10 percent), education (4 percent), health (3 percent), and water (3 percent). Revenue sharing among local governments is much more specific and complex.<sup>8</sup> Overall, both states and local governments depend heavily on federal transfers to finance their activities. In Cross River and Ondo states (case study sites), federal statutory transfers accounted for 79 and 84 percent of total revenue, respectively, between 2008 and 2012, on average (Olomola et al. 2014). In the case study LGAs, the shares are even larger.

There is no shortage of institutions to govern vertical fiscal relations in Nigeria. The Federation Account Allocation Committee and the National Revenue Mobilization Allocation Fiscal Commission preside over sharing of revenue from the federation account. The role of the Federation Account Allocation Committee is to ensure that allocations from the federation account are paid promptly and in full into each state's treasury (Allocation of Revenue Act, 1982). The National Revenue Mobilization Allocation Fiscal Commission has the power, among other powers to: *"monitor the accruals to and disbursement of revenue from the Federation Account; review, from time to time, the revenue allocation formulae and principles in operation to ensure conformity with changing realities; and advise the Federal, State and Local Governments on fiscal efficiency and methods by which their revenue is to be increased"* (Revenue Mobilisation, Allocation and Fiscal Commission Act, 1989). According to the provisions of this Act, *"the Commission shall be an independent and autonomous body and shall not be subject to the direction or control of any other authority or person in the exercise of its power to make appointments or to exercise disciplinary control over persons."* However, the actual practices of these fiscal institutions diverge from their formal rules. Scholarly evidence and news reports highlight the weak power of the Commission to enforce provisions of the Act. For instance, recommendations of the Commission on revenue sharing have been adjusted several times in the past by the federal government to favor itself (Ekpo 2007).

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<sup>7</sup> According to Shah (2007), revenue-sharing or unconditional formula-based transfers should be used only as a last resort to address vertical fiscal gaps since they undermine accountability to local tax payers.

<sup>8</sup> It is worth noting that education, health, and water sectors are prioritized within revenue sharing among states and among local governments.

Institutions which oversee horizontal fiscal relations are also in place. As discussed earlier, both federal statutory allocations (from the federation account) and state statutory allocations (from the state treasury) to Local Government Councils are paid into a State Joint Local Government Account. In each state, the State Joint Local Government Account Allocation Committee oversees the payment of funds into the account as well as distribution of funds. Together with each house of the National Assembly, the Accountant-General and Auditor-General of the Federation also play important roles in monitoring disbursement and use of funds. It is against the law for a state or any authority to alter, deduct, or reallocate funds in the joint account and the power of the state to borrow money does not extend to funds apportioned to Local Government Councils. If a state defaults in the allocation or distribution of funds to a local government, the funds will be deducted as a first charge from the state's next allocation from the federation account (Monitoring of Revenue Allocation to Local Governments Act 2005). Findings of state control or manipulation of local government funds in the State Joint Local Government Account suggest that the actual functioning of this governance architecture also differs from what is prescribed by formal rules.

### **Overreliance of subnational governments on federal transfers**

Persistent vertical fiscal imbalance across government tiers supports high dependency of subnational governments on statutory federal transfers. For more than three decades, experts have attributed the inactivity of several state governments in Nigeria and lack of foresight in generating own revenues to heavy reliance on transfers from the federal government (Olowu 1991). Overdependence on federal transfers can weaken the accountability of lower-tier governments to citizens when they push the responsibility for service delivery to higher-tiers of government and blame them for spending difficulties (Rodden 2002; Khemani 2006). Interview accounts relate discrepancies between agricultural budgets and actual spending to delays in the release of or cut-backs in federal statutory transfers and insufficient donor funds. Many mention uncertainties around the price of crude oil as a key factor contributing to irregularity of federal transfers. These disruptions, they note, translate into delays in the disbursement of funds or non-release of funds (by the state Accountant General's office) for the implementation of agricultural budgets, particularly capital budgets. In the case of local governments which depend even more on statutory transfers, the accounts are the same but the negative impact on their capacities to implement agricultural budgets are noted as being greater despite being the closest to the local population.

Only in a few instances was reference made to the importance of internally generated revenue—for example in the case of the state Ministries of Agriculture which feel that they generate substantial revenue, but have difficulties implementing their budgets due to lack of funds. One official at a state Ministry of Local Government made a case against overdependence on federal transfers: “...*there is too much dependence on the federal allocation because of the existence of oil...that is what we are emphasizing, the need for Local Government Councils themselves to intensify effort in their revenue generation so that we'll see how much they can generate. If they are able to fund even if it is half of their projects, from their internally generated revenue[s], it will go a long way, so that we will have situations where even if the federal allocation is not enough or is delayed, one or two projects will still be done. So that is what we are sensitizing them to do so that they can always overcome...once there is a [decline] in oil price, they suffer.*”

The degree to which the structure of intergovernmental transfers influences subnational accountability depends on the type of political relations between the federal government and subnational governments (Khemani 2007). Political differences and tensions surrounding federal-state relations in Nigeria can weaken subnational accountability in the provision of public agricultural goods and services. Furthermore, high dependency of lower-tier governments on transfers from the center can contribute to soft budget constraint problems and fiscal indiscipline, including excessive spending and borrowing, misallocation of resources, and recurring demand for federal bailouts (Rodden 2002;

Vigneault 2007).<sup>9</sup> The underlying reasoning is that overreliance on transfers from the center creates an incentive for subnational governments to maximize the full benefits of the common pool of federal resources without internalizing the full costs of their expenditure decisions—a common resource pool problem that derives from the separation of costs and benefits (Berry 2008).

## **TOWARD BETTER INTERGOVERNMENTAL COORDINATION— RESTRUCTURING OF FMARD**

Coordination problems can arise among government tiers that prevent them from collaborating effectively in the joint provision of agricultural goods and services, leading to inefficiencies. Moreover, ambiguities and overlaps in the functions of government tiers contribute to coordination challenges. To be sure, the involvement of government tiers in the development of agriculture in Nigeria is not uniform. To improve coordination between government tiers and strengthen the implementation of ATA programs, the federal government restructured FMARD, including the deconcentration of staff (Olomola 2016). A number of state-level FMARD staff mentioned that, prior to the reform, staff in several departments were present in states in an uncoordinated manner as responsibilities were not properly defined and it was difficult to know who was doing what.<sup>10</sup>

With the reform, state offices of FMARD—known as Greenhouses—are the main administrative mechanisms for intergovernmental coordination in the implementation of federal programs. Greenhouses are designed to coordinate activities between federal, state, and local governments, monitor implementation of federal level projects, and ensure accountability of federal government spending in agriculture. A high-level official in a Greenhouse makes this distinction between the roles of Greenhouses, state governments, and FMARD: *“Principally we [Greenhouses] are to facilitate federal government projects in the state. That distinguishes us clearly from the state government that is supposed to implement agricultural policies within the state. That distinguishes us from the headquarters in Abuja, they are supposed to formulate the policy.”* The structure of Greenhouses is similar in case study states and other states across the country. A Greenhouse is led by a state director with assistance from subject matter specialists or project support officers organized around various crop, fishery, and livestock value chains. Subject matter specialists also exist for other areas, such as strategic grains reserve, engineering and mechanization, gender and youth, land resources, rural development, administration and accounts, and quarantine services. Regarding financial management, Greenhouses do not develop budgets to finance capital expenditures or procure equipment, as such funds are provided by FMARD headquarters in Abuja. However, the decisions on how to allocate resources for operating expenses—such as for fuel, basic amenities, and maintenance are made in-house.

Regional offices of FMARD, structured by the six geopolitical zones, provide oversight for Greenhouses.<sup>11</sup> While Greenhouses serve as liaisons between the federal government and state governments (including local governments) on the implementation of federal agricultural policies, regional offices serve as liaisons between FMARD headquarters and Greenhouses. Although the standard reporting structure from Greenhouses to FMARD in Abuja is through regional offices, direct communication also occurs frequently through e-transactions. Regional directors attend top management meetings with the Federal Minister of Agriculture and disseminate information to state directors within their jurisdiction during monthly meetings. They also serve as representatives of the Federal Minister of Agriculture at various events in their states whenever needed. At FMARD

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<sup>9</sup> Rodden, Eskeland, and Litvack (2003, 7) describe soft budget constraint as a situation in which “an entity, say, local-level governments, can manipulate its access to funds in an undesirable way.”

<sup>10</sup> Determination of the impact of this reform is beyond the scope of this study.

<sup>11</sup> For the case study states, Niger State is home to both the Greenhouse and the regional office of the North Central geopolitical zone. Cross River Greenhouse is overseen by the South regional office in Port Harcourt (Rivers state) and Ondo Greenhouse by the South West regional office in Ibadan (Oyo state).



headquarters, the entry point for both regional and state directors is through the Permanent Secretary of the Ministry.

The way in which the deconcentration of FMARD extends to the local government level is less clear. In Niger State, for example, FMARD offices set up in local governments are referred to as Value Chain Offices. As there is no capacity in terms of staff strength to cover all the LGAs in the state, Value Chain Offices are present in only 10 of 25 LGAs in the state and are organized in clusters based on areas with major activities of specific value chains. In some cases, the offices are located in One Stop Shops set up for farmers to purchase a range of agricultural inputs. Eventually, the private sector is expected to take over these One Stop Shops and generate revenue for the state—how this arrangement will actually work is also not clear. While there are five One Stop Shops in the state, only one was operational at the time of the study. In situations where a Value Chain Office does not exist by itself or in a One Stop Shop, FMARD staff assigned to LGAs are positioned in the state Ministry of Agriculture.

The activities of Greenhouses are not limited to coordination of the ATA flagship program, the Growth Enhancement Support Scheme (GESS), alone. Greenhouses also provide oversight for other components of ATA, such as rural infrastructure development, farmer training, and development of youth in agriculture. In Ondo state, for instance, Greenhouse staff facilitate training of farmers and state Ministry of Agriculture staff on tractor operation. Farmers are also trained in seed production and multiplication, aquaculture production, and processing. Improved seed varieties distributed to states are acquired by the federal government, although states are sometimes paid to raise seedling nurseries. While these seeds are provided for free to states by FMARD, the states are required to cover transportation costs for delivery (in this case, states have the responsibility of distributing the seeds or seedlings to farmers). In other instances, the federal government procures and distributes seeds directly to farmers, without involvement of state governments.

Alongside federal-led priorities in agriculture, subnational governments concurrently engage in agricultural activities which overlap with those of the center. Cross River state, for example, had several programs under the Cross River Agriculture and Rural Empowerment Scheme with target areas, such as crop, aquaculture, and livestock production; farm mechanization; input delivery; agricultural credit; and agricultural extension services (Olomola et al. 2014). Niger and Ondo states have similar objectives and others, such as sustainable forestry development; rural development, including provision of rural infrastructure; development of youth in agriculture; agricultural processing; and protection of agricultural lands. While these activities are noted as driven by the policy direction of each state, it is unclear how they actually align with the federal government-driven activities without leading to overlap of responsibilities and duplication of efforts. These findings are consistent with Mogues et al. (2012) about the lack of clarity on how responsibilities for key agricultural activities, such as research and extension, are assigned among government tiers.

In relation to the provision of agricultural extension, we find in one of the case study states that both state and local governments provide extension services without strong linkages between the activities of the two tiers. Following the withdrawal of World Bank funding for Agricultural Development Projects (ADPs) in the 1990s, the mandate to fund extension services has resided primarily with state governments. Extension agents in local communities are staff of state Ministries of Agriculture (in ADPs), but Departments of Agriculture in LGAs concurrently have their own extension agents. One officer explains that extension staff of the local government can sometimes be on secondment to ADPs when the state extension service is short-staffed. According to the officer, this is the only way in which extension staff at state and local government levels interact with each other, although occasionally they may share basic information with one another. It is worth noting that since the 1990s, the federal government has not had a role in agricultural extension until FMARD, under ATA, launched the Agricultural Extension Transformation Agenda in 2011 (Olomola et al. 2014). In 2012,

a Federal Department of Agricultural Extension was created (Olomola 2016). Whether or how this new agenda introduces change to the landscape of extension service delivery remains to be seen.

## **INTERGOVERNMENTAL COORDINATION, PARTICULARLY IN THE IMPLEMENTATION OF THE GROWTH ENHANCEMENT SUPPORT SCHEME**

To implement ATA, states and local governments cooperate with the federal government in several ways, including through the use of counterpart funds to finance different activities. As the flagship program of ATA, Greenhouses place much emphasis on the coordination of GESS implementation in participating states, including the three case study states. These representatives of FMARD at the state level consider the performance of GESS a reflection on the performance of their offices. One respondent emphasizes: *“Actually in a state, it’s our responsibility to make sure that [GESS works] in a state. It’s our responsibility. So if [GESS fails] here that means we personally [have] failed, as in Greenhouse has failed if [GESS does] not work ...”*

As a shift from the previous Federal Market Stabilization Program, GESS is designed to provide incentives to key actors along the fertilizer value chain to work together toward improving agricultural productivity, household food security, and farmer incomes. Specifically, the program’s objectives are to: (i) deliver agricultural inputs via mobile phones to five million farmers annually for four years; (ii) provide direct support to enable them procure agricultural inputs at affordable prices, at the right time, and at the right place; (iii) increase farmer productivity all over the country through increased fertilizer use—from 13 kilograms per hectare to 50 kilograms per hectare; and (iv) transform government’s role from direct buyer and distributor of fertilizer to a facilitator of procurement, regulator of fertilizer quality, and catalyst of active private-sector participation along the fertilizer value chain.

To meet the annual target of five million farmers, one major activity of GESS is the registration of farmers. Although the federal government (FMARD) initially was solely responsible for farmer registration, which began in 2012, it was implemented in collaboration with state governments. To commence the exercise, FMARD headquarters provided Optical Mark Reading forms to Greenhouses, and staff from Abuja facilitated the training of enumerators and supervisors provided by state governments. For example, with 274 wards, 25 LGAs, and an average of 10 wards per LGA in Niger State, 274 enumerators and 25 supervisors were trained. Directors of Agriculture in LGAs were also trained in partnership with the state Ministry of Agriculture. These directors are, in turn, asked to train at least two additional enumerators per ward in their LGAs, which comes to about 20 additional enumerators per LGA, on average. Training costs for these additional enumerators are the responsibility of local governments and payments for such costs are deducted at source by the Ministry of Local Government from state statutory transfers. The state Ministry of Agriculture covers other costs related to implementing the exercise in LGAs, such as for logistics, transportation, and monitoring. Across states, training costs and allowances provided to enumerators and supervisors were one-time costs incurred by FMARD.

After the initial year, the federal government expects state governments to take over the farmer registration exercise, while Greenhouses continue to play a coordinating role—one officer explains: *“You see the whole idea is to put the state on the driver’s seat. ... and also to put the private sector on the driver’s seat. We are just to facilitate their programs, because we don’t have farmers anyway, that is the idea. Federal government has no farmers, the farmers belong to the state and the local governments.”* The farmer registration exercise at inception was not without its glitches. Respondents acknowledged that it was one of the most challenging activities of GESS, as some states rejected the registration forms due to high costs of the Optical Mark Reading forms and of enumerator and supervisor training.

For input delivery under GESS, fertilizer, improved seed varieties, and agrochemicals are sold to farmers at subsidized rates via e-wallets. The way the input subsidy financing works is that farmers in

participating states pay 50 percent of the cost of inputs, while the 50 percent subsidy is shared equally by the federal government and state governments (25 percent each).<sup>12</sup> The subsidy amount due to states is deducted at source from their share of federal statutory allocation. The total government subsidy is paid to the input supplier by the Central Bank of Nigeria. For a better understanding of how delivery works, the case of the fertilizer subsidy is illustrative. Under the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending, the federal government asks manufacturers and importers of fertilizer to obtain a loan facility with their banks which the federal government will guarantee. As soon as the loan is secured, Greenhouses provide to the input supplier the quantity of fertilizer to be delivered to redemption centers in local government wards based on the number of farmers registered in each ward. Each farmer is entitled to two bags of fertilizer (and one bag of seeds at no cost). Input suppliers then appoint agro dealers in each of the redemption centers, deliver the fertilizer, and cover all logistics costs, including payment for a security guard at the redemption center. As one respondent notes: *“So fertilizer up to that point was not meant to become property of the state or that of the Federal Ministry of Agriculture at all, it’s for the business man.”*

Registered farmers receive text messages to pick up fertilizer at redemption centers. Pick-up notification is coordinated by Greenhouses through a mobile wallet network of millions of farmers developed by Cellulant Nigeria Limited. It is only when a farmer picks up the allocation by contributing 50 percent of the fertilizer cost that government subsidy payment is assured. Pick-up is confirmed by sending a text message back to Cellulant Nigeria Limited. At the end of each day, Greenhouses reconcile confirmation text messages with information on fertilizer sales of agro dealers which is provided by banks.<sup>13</sup> Input financing under GESS also had a number of shortcomings. One concern was that farmers without access to mobile phones were excluded from the subsidy program. For those with mobile phones, many either never received pick-up notifications or received them too late. Respondents also noted that a blanket date for input delivery across regions was problematic, as differences in planting seasons between the North and South, for example, called for differentiation in roll-out dates.<sup>14</sup>

Barriers to intergovernmental coordination can be garnered from the objections of subnational governments regarding the implementation of ATA, particularly GESS. Based on accounts in the case study states and outside of study areas (Olomola 2016), some states complained about little or no participation of states in the policy planning and design of ATA given different specializations in agriculture; inadequate sensitization of states; and the fact that states were coopted into participating in ATA programs. In addition to these objections, insufficient funds to finance agricultural budgets came up frequently as a barrier to intergovernmental coordination. In the context of state-local government fiscal relations, officials in state ministries noted that states usually have to step in to take over the activities of local governments, given that they are usually financially handicapped. This is the case irrespective of coordination arrangements among government tiers. On several accounts, state officials pointed out the prevalent lack of funds or funding shortfalls for agricultural programs across local governments. As recalled, local governments most times fall behind on the payment of counterpart funds. In one case, for example, local government counterpart funds were fulfilled for only two months during the year. In other cases, counterpart funds had not been paid for longer periods of time.

Even though the participation of local governments in GESS implementation was fairly marginal, similar challenges to intergovernmental coordination exist. With reference to GESS implementation, an officer at the local government level in Niger state noted that fertilizer is not considered a universal need among farmers in the state. The response of livestock farmers in the state when offered the

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<sup>12</sup> The federal component of the subsidy will thus show up on FMARD’s budget.

<sup>13</sup> Of note is that the delivery of inputs via the e-wallet system was designed to curb corruption.

<sup>14</sup> For more details on the implementation challenges of GESS as well its performance, see Olomola (2016).

GESS fertilizer subsidy was: “No, fertilizer is not our priority, if you can provide us with ox-drawn ploughs, we will prefer [them] to fertilizer.” Unrelated to GESS, resistance of some local governments to a federal-led agricultural activity not peculiar to all local governments (but to be financed with counterpart funds from all government tiers) stalled funding for the activity in another case study state. A local government official emphasizes that even if priorities are anchored by the state government (or federal government), local governments should be involved in the decision-making process and not only be tasked with implementation. To further illustrate the point, the example was provided of a case in which Directors of the Departments of Agriculture in local governments were assigned as the coordinators of a national food security program, but powers to function in their capacities were not fully devolved to them. Consequently, successful implementation was difficult to achieve. These findings underscore the importance of ensuring buy-in of lower-tier governments in the design of federal programs given that they are at the center of implementation—an imperative for productive intergovernmental relations (Falcone and Lan 1997).

## 5. SUMMARY

This study drew on qualitative interviews at the subnational government level in Nigeria—from three states and three local government areas—to investigate the role that key institutions play in informing how public expenditures are allocated across competing needs, with a focus on the implications for public investments in agriculture. The analysis focuses on two primary types of institutions at the subnational level. The first are budget institutions, that is, the rules, processes, and laws that govern the budget and spending cycle. The second are political institutions, and in particular, one that is highly salient in Nigerian policy discourse, namely federalism, especially in its manifestation through the nature of coordination between the federal, state, and local governments in committing resources to support the agricultural sector.

Drawing on the conceptual framework of actor-centered institutionalism, we inquire on the constraints and opportunities that Nigerian subnational budgetary institutions create for different actors—for example, in executive versus legislative roles, in higher versus lower tiers of government, and with sector-specific versus non-sectoral responsibilities—to influence budgetary and spending allocation to agriculture. The empirical analysis reveals that, even after a budget has gone through all the standard processes and has been signed into law as an approved budget, the extant rules create openings for government stakeholders to exercise significant discretion on revising the budget through the use of the so-called reordered budget and supplementary budget—even well after public expenditures have begun to be executed. This renders fairly weak the commitments arrived at during the first and second stages of the budget process—planning and negotiation over the budget, and legislative approval.

Similarly, during the third stage of the budget process, budget implementation, the relevant stakeholders in the budget process can make significant changes to funds disbursement, given the approval process that fund releases have to go through at the level of funds for each individual projects. Confirmation of a correspondence between the requested funds and the budget amount is not enough to enable release of the funds to state government line ministries from the state Ministry of Finance, or to local government line departments from the state Ministry of Local Government. Rather, a number of sectoral and non-sectoral government executives will have to express explicit support of public expenditures for each and every project well after the budget allocations have been mutually agreed upon. This sets up a scenario in which these stakeholders can use these budget rules to make changes based on their own priorities, irrespective of the approved budget.



The Nigerian budget institutions—because of both their formal structure and the particular way the budget rules have been applied—also generate quite differential abilities to exercise discretion over budget formulation and subsequent public resource allocation. Despite the fact that generally presidential systems tend to give relatively high leeway to legislative bodies in shaping public expenditure assignments, in the Nigerian subnational context, the role of the state House of Assembly appears fairly marginal in the budget process. Even more so, the role of the local government legislative (as opposed to executive) council in shaping budgetary distribution is practically nil. The non-sectoral chief executives—the Chairman at the local government level and the Governor at the state level—have respectively been given significant authority in the budget rules to determine both budget and spending allocation. There is also a pronounced asymmetry in the ability of government tiers to control the budget process at their level. While the infringement of the federal government in the state's budget process is minimal, the influence of the state governments in the budget affairs of their local governments is strongly dominant. Given the differences in capacity between state and local government levels, some of this asymmetry may be expected. However, the severity of the asymmetric control of the higher tier in the next lower tier's budget process between the state and the local government cannot be explained by capacity differences alone.

Also within the framework of actor-centered institutionalism, we examine how Nigeria's federalism affects the roles of government tiers and structures intergovernmental relations—vertical and horizontal—to influence public resource allocation to agriculture. Empirical analysis of this study show that federalism (and fiscal federalism) as it is practiced in Nigeria differs from its formal structure. Nonetheless, both formal rules and actual practices of Nigeria's federalism shape the incentives and constraints of government tiers and their ability to achieve cooperative outcomes in agricultural policy, planning, and implementation.

Regarding relative roles and expenditure responsibilities of government tiers in developing agriculture, constitutional provisions are somewhat ambiguous and to some extent non-binding vis-à-vis actual roles and responsibilities. Under provisions for concurrent legislation, federal government powers are limited with states assigned the powers to legislate on agricultural development—although without a specification of individual functions. Federal government intervention and investment in the development of agriculture is extensive. As implied by the Constitution, the provision of public agricultural goods and services is the responsibility of states, with the participation of local governments, but without a clear delineation of their relative functions. Ambiguities in the delineation of roles and responsibilities across government tiers seems to create room for overlaps, and possibly gaps, in the financing of public agricultural goods and services. Moreover, ambiguity around the authority and autonomy of local governments empower states to exercise discretionary power over the public finances of local governments. This weakens the fiscal autonomy of local governments and the extent to which they are able to implement agricultural budgets.

Inequality in fiscal capacities across government tiers contribute to different capabilities for resource allocation to agriculture. States and local governments have limited revenue-raising authority relative to the federal government because the main sources of revenue are within the federal's government tax jurisdiction and collection. For this reason, internally generated revenue represents a small part of the total revenue of subnational governments available to finance agricultural activities. Vertical fiscal imbalance is evident as the revenues of subnational governments from their own sources relative to that of the federal government do not match with their expenditure responsibilities, in spite of federal fiscal transfers. This enduring imbalance continues to drive overdependence of states and local governments on federal statutory transfers. With overreliance on statutory allocations from the center

and disruptions in the release of allocations, accounts of poor implementation of capital agricultural budgets are many, especially at the local government level. This creates incentives for subnational governments to shift the blame of difficulties in resource allocation to the federal government, undermining subnational accountability. Fiscal arrangements governing the distribution of statutory allocations between higher and lower tiers of governments and among lower tiers of government are in place, but enforcement mechanisms are weak.

There is recognition of the need to improve the incentives of government tiers to cooperate in the provision of public agricultural goods and services. In the context of the restructuring of FMARD, it appears that change is in motion to strengthen intergovernmental coordination in the implementation of federal programs, but remaining challenges contribute to non-cooperative outcomes. Overlapping responsibilities between government tiers present coordination challenges, particularly in federal-state relations. State governments seem to frown upon the extensive intervention of the federal government in the implementation of agricultural programs. In relation to the implementation of GESS, some state governments, and to a lesser extent local governments, complained about their lack of participation in the planning and design of ATA programs. This deters the achievement of cooperative outcomes in the allocation of public resources to agriculture.

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