Journal of World Economic Research
2017; 6(1): 5-16
http://www.sciencepublishinggroup.com/j/jwer
doi: 10.11648/j.jwer.20170601.12
ISSN: 2328-773X (Print); ISSN: 2328-7748 (Online)

Education Funding and Human Capital Development in Nigeria

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To cite this article:

Olure-Bank Adeyinka Michael, Olayiwola Wumi. Education Funding and Human Capital Development in Nigeria. *Journal of World Economic Research*. Vol. 6, No. 1, 2017, pp. 5-16. doi: 10.11648/j.jwer.20170601.12

Received: October 6, 2016; **Accepted**: October 26, 2016; **Published**: March 2, 2017

Abstract: The paper establishes how the Nigeria fiscal federalism impact education funding and human capital development indicators, and provides long-time policy proposal to raise long-run economic growth through fiscal federalism. Economic theories that link government income, expenditure, human capital and economic development exist. Important is the relationship between tiers of government in terms of revenue – sharing and expenditure for economic development. Recommendations put forward are, the need to review the expenditure assignments as well as the fiscal jurisdiction of the three tiers of government. Each unit must justify whatever it is getting from the national purse.

Keywords: Funding, Education, Sustainable, Development, Challenges, Economic Growth

1. Introduction

Education remains a vital instrument for sustainable development of any nation is not in doubt in the minds of many people. This is underscored by the fact that it transcends the social, cultural, political and economic fabric of the society. A point they stress in this regard, is that irrespective of the natural endowment a nation might have, without the requisite educational capacity, the skills necessary to harness them would be lacking and therefore, the structure or system of such a society is bound to have defects. Another general consensus is that for education to be seen as successful, it requires huge investments either in terms of policies and implementation, infrastructures, human capacity development and of course funds, including the application of all these to get the desired goal. (Innocent, O. 2012).

However, Nigeria is one of the countries within the African continent that has been termed educationally disadvantaged and almost at its precipice, owing to a myriad of problems bedeviling the sector.

Chief among these constraints remain the issue of poor funding of the sector, for which the United Nations Education and Scientific and Cultural Organisation (UNESCO) and other stakeholders have consistently advocated for an increase. UNESCO, for instance, believes that for the sector to be properly rejuvenated and offer the much needed impact, governments of member countries ought to channel at least 26 per cent of their national budgets to education alone. But with harsh economic implications the world over, this could however be seen as a tall dream, particularly when governments are faced with how to ensure judicious distribution of the available resources among every other sector.

Although the Federal Government of Nigeria has received commendations from stakeholders for appropriating N426.53 billion to education in the 2013 budget, a critical examination of the entire N4.92trillion ($32billion) budget proposal presented by President Goodluck Jonathan to the seventh National Assembly clearly showed a modest increase by only five per cent from that of N4.697 trillion in 2012.

Relying on the benchmark advocated by UNESCO, it is still implicit that the education sector still faces the problem of inadequate funding.

A cursory analysis into the 1999 and 2001 budgetary provision for education showed that 16.77 per cent and 4.08 per cent of the country's budget went to the sector; in 2011 it got 10.24 per cent. While in this year's budget it represents 8 percent, a far cry from the 2011 appropriation.

Statistics recently released by the UN Human Development Index (HDI) ranks Nigeria 26th out of the 54 African countries and 13th out of the 16 West African countries on education.

The HDI rating was based on four critical macroeconomic variables of education, literacy, life expectancy and standard of living. It also ranked Nigeria 156th out of the 187 countries that were surveyed.

Again these startling revelations show clearly that the country's educational sector is in dire need of resuscitation.

Over the years, Economists have been emphasising the need for effective mobilisation of resources as a catalyst for national development in any economy, which can only be achieved through the effectiveness in the mobilisation and allocation of funds to different sectors of the economy, so as to allow them manage their human or material resources which will result in optimal output for a sustainable growth and development in any economy.

Before the recent past, accumulation of physical capital was considered near-singular factor of economic growth. Improvement in technology that accounts for increase in output and services was considered as an exogenous variable (Solow, 1956). It is important to recall that the human capital revolution, which gained reasonable attention, started with the seminal papers of economic scholars in the 50s and 60s (Blaug, 1976). In the past two decades of the last century, it had been refined to highlight its endogenous contribution to the growth process (Romer, 1986, 1990; Lucas, 1988; Umo, 2007).

Therefore all developing countries were advised to invest in human capital formation of which Nigeria also participated. Nigerian government did not only start training people in schools, but formulated education policies in relation to primary, secondary and tertiary institutions toward making education workable in Nigeria. (M. A. Adawo 2011)

No nation can develop beyond the quality of its education, as a nation's overall advancement is a direct function of the quality of the educational attainment of its citizens. Quality of education depends on a nation's funding of the sub-sector. Nigeria has laudable constitutional provisions to ensure complete government participation in, and financing of education.

Stemming from the economic model of human-resource capitalism, the human capital concept emphasizes the relationship between improved productivity or performance and the need for continuous and long-term investments in the development of human resources. This model can be applied on a broad scale where investments in human capital are viewed as affecting national and global economic performance or, more narrowly, where investments in people are viewed as crucial to organization performance. That differs from a more traditional and instrumental approach where human resources are primarily seen as a cost to be contained beyond immediate and short-term needs. This short-term view often addresses change or poor performance by seeking government intervention to offset competition and by using cutback methods for keeping wages down, contracting out, and automating jobs (Richard Huff, 2013). Obviously, Human capital development lies at the heart of economic, social and environmental development. Being a vital component for achieving internationally agreed sustainable development goals, including the Millennium Development Goals, and for expanding opportunities to all people, it is also particularly the most vulnerable groups and individuals in society.

Human capital development has been defined as empowering people by fostering the contributory capacities that they can bring to the improvement of their own quality of life and that of their families, communities, enterprises and societies. Over the years, the concept of human resources development has evolved from solely focusing on individual capacity to also building institutional capacity at the national level, through socio-economic policies and development plan and strategies. Human resources development is, therefore, regarded as facilitating the development of national human capacities to achieve sustainable, inclusive, equitable development and, at the same time, enhance well-being of individuals. As such, human resources development

As global labour markets both shape and adapt to the emerging occupational structures of growing economies, human capital development strategies must balance the demands of new employment sectors with the supply of required skill(United Nation, DESA).

Thus recruitment of academically qualified employees is a necessary start for sustainable human capital development in all organizations. Human capacity has become a critical index of competition in the world of knowledge to the extent that the development of such capacities through training has become top priority in designing the strategic plan of business organizations (Tim & Brinkerhoff, 2008). Education is Human Capital Development (HCD). Although this equation indicates that both sides are equal in function and value, neither education nor HCD effectively embraces the other. Education works as a self- contained system that strives to provide skills and knowledge to youth, while HCD is viewed as a corporate function. However, a strategic blend of HCD and education would enhance the effectiveness of both systems and move us toward resolving the dual problem of reforming our beleaguered educational system and restructuring HCD programs. The end result might well be the development of more effective and efficient workers for the work place of tomorrow.

The global education goals, with their emphasis on the quantitative indicators such as the enrolment rates or the number of years of schooling, may have led to too narrow a focus in linking education to human resource development. While many low-income countries have made remarkable progress towards achieving universal primary education, new challenges have emerged. There are serious doubts about the content and quality of education indicating the need for a paradigm shift in education towards learning and skill development. To keep pace with increasingly competitive and globalized markets and rapidly changing technologies, education systems need to be geared towards developing well-balanced human resources with appropriate skills and flexibility for adjustment. If critically assessed, increasing attention will need to be paid to post-primary education and skill-training in order to consolidate the gains made in elementary education and also to benefit from the "youth bulge" resulting from the demographic transition taking place in large parts of the developing world (Mahmud, 2014). The importance of human capital development (as referred to as "HCD") is noticeable when one considers that in any economic activity it is the human element that.

• Commands
•directs
•organises
•Controls
• maximises the factors of production.

The quality of people appropriate to the particular level and complexities of the activity determines how well or poorly, these tasks are accomplished.

HCD encompasses a wide range of subjects such as health care, nutrition, population control, education and training. For the purposes of this paper, the term HCD is used to cover only education and training, as they are more directly related to the mandate of employers' organizations (Silva, 1997).

1.1. Statement of the Problem

On the average, Nigeria spends less than nine per cent of its annual budget on education, less % allocation advocated by UNESCO. Even this paltry amount does not seem to be efficiently utilised in funding education in the country. The country's educational system is beset with a lot of problems like school closure occasioned by teachers and lecturers strike

As Nigeria strives to be in the league of the first twenty most developed economies of the world by 2020, it is crucial at this point that government's efforts at developing sufficient skilled manpower to meet the political, social, institutional, technological, and economic demands of vision 2020 be subjected to efficiency evaluation, particularly in the education sector. Most of the past studies on Nigeria's human capital development focused on its impact on economic growth and development. However, very few studies were conducted to assess the need for adequate government expenditure on education as a vehicle for human capital development.

It is from this background that is paper try to analysed the effect of fiscal federalism on educational funding and human capital development in Nigeria, using descriptive analysis to Nigeria Bureau of Statistics (NBS) and Central Bank of Nigeria (CBN) to show the implication of the current fiscal structure to educational funding and human capital development in Nigeria.

1.2. Outline of the Study

The first section introduce the subject-matter and statement of problem, the second section review related literature, the next section focus on fiscal structure as practised in Nigeria and the second to the last section analysis the effect fiscal federalism on Socio-Economic indicator of Nigeria and the last section talk about policy recommendation and conclusion.

2. Literature Review

Western countries, education is considered as an economic device that is as human capital. According to Fitzsimons (1999), human capital theory is the most influential economic theory of western education, setting the framework for government policies since the early 1960s. In Nigeria, the same understanding has become attached to education as a tool for improving workforce skills, enterprise, initiative, adaptability, and attitudes. It was Habison (1973) who noted that human beings are the active agents who accumulate capital, exploit natural resources, build social, economic and political organizations, as well as the drivers of national development.

According to Ilegbinosa (2013), the accumulation of human capital by countries is seen as an investment decision. He argues that while investment in human capital has been a major source of individual, communal and national economic growth in advanced countries, the same cannot be said as the experience in less developed countries, like Nigeria, where the human development index have remained low for several decades.

2.1. Brief Theoretical Review

Education constitutes the very foundation of meaningful socio-economic, political growth and development of any nation. No wonder the federal Government of Nigeria adopted education as an instrument par excellence for affecting national development (Ajeyalemi 2009). It is as a result of the premium placed on education that made the federal government in 1969 to organise the first ever national curriculum conference in education (Ikpeze 2010). The outcomes and resolutions of that curriculum conference gave rise to the national policy on education which was first published in 1977 and has been revised in 1981, 1996, and 2004 respectively; which all involved a huge amount of funds. Since the implementation of the national policy on education in 1981, there have been a lot of innovations and reforms in the education system. Unfortunately, education in Nigeria despite these reforms and the continuous huge investment by various regimes of government has not sufficiently lifted the nation from the morass of technological, under–development, political instability and social decadence (Nwagu 2010). It can be argued that most of these reforms and innovations are poor implemented due to unsustainable funding.

2.2. Structure of Nigeria Education

Primary education in Nigeria refers to the education which children receive from the age of 6 years to 11 years plus. It is the foundation level of the educational system which runs for six years, and it is aimed at developing basic literacy, numeracy, communication skills and transmission of the culture of the people to younger generations. Information gathered through the education data bank shows that as at 1998, there were 41,814 primary schools with an enrolment of 16,348,324 (13.75% of these were females) and 468,770 teachers (26.45%) of these were non-qualified teachers). The teacher/pupil ratio at the level was 1:38 while the completion rate was 64.1 percent and the transition rate of products to Junior Secondary Education level was 39.1 percent. The structure of our population in Nigeria is such that about 45% of the people are within the age bracket of six to twelve years. According to the provisions of National Policy on Education, this is the corresponding age group for primary education.

Obviously, the enrolment pattern in the educational system follows the pyramidal structure of the nation's population distribution. The primary level has the largest enrolment, followed by the secondary level and then the tertiary level. This enrolment structure, no doubt, depicts the structure of our social demand for the various levels of education. The primary education level, being the bedrock of the child's basic education, is a very vital aspect of the nation's educational system that deserves to be handled with great care and caution. Any error committed in the organization and management of this level of education may reverberate on other levels and thus seriously mar the lives of the people and indeed the overall development of the nation. This is one good reason why all the stakeholders must show enough concern for those issues that concern the organizing and managing of our primary education system. (Durosaro 2000)

Over the last two decades, the management of primary education had been experiencing some problems as a result of policy gaps. Teacher’s salaries were not paid adequately, schools were not well-maintained and facilities were not adequately provided owing to the fact that management of primary education had to be oscillating among State Government, Local Government and Federal Government. At a time, State Government took control, later it was handed over to the Local Government and then to a Federal Commission. Moreover, it was just until lately that a concrete legislation was passed on primary education in Nigeria - the UBE Bill.

Accurate and timely data has long been the bane of policy formulation and management in Nigeria our primary education system inclusive. To obtain accurate data on enrolment, teachers, non-teaching staff and even facilities appears to be a difficult task for the school managers. Apart from this lack of capacity of the school managers, school data collection and analysis seem to be marred by other socio-politico-economic factors such as fraud, politics of national resource allocation and social apathy.

Another issue of concern in the management of primary education in Nigeria is that of inadequate funding. According to a World Bank survey on Nigeria, the federal expenditure on education seems to be below 10% of its overall expenditures. For instance, between 1997 and 2002, the total share of education in total federal expenditure ranged between 9.9% and 7.6% with the trend showing a downward plunge (World Bank, 2002).

Table 1. *Federal Government Expenditure on Education as Percentage of total Federal Government Expenditure 1997 – 2002.*

Expenditure	1997	1998	1999	2000	2001	2002
Area	%	%	%	%	%	%
Recurrent	12.3	12.0	11.7	9.4	9.5	9.1
Capital	6.1	7.5	5.0	8.5	6.0	6.0
Total	9.9	9.6	9.0	9.0	7.5	8.0

Source: FGN, Annual Budgets 1997-2002

It would have been more interesting to spell out what proportion of this expenditure on education actually goes to primary education but the non-availability of accurate data did not permit this. It is even worth mentioning here that the bulk of this meager expenditure shown on Table 1 even goes to recurrent activities. This issue of under-funding of education so endemic that it has now encompassed series of other problems of shortages of human and material resources (Durosaro, 2000). The current pattern of investment within the education sector is such that the tertiary level gets the lion share while the primary level gets the least. This pattern is inversely related to number of institutions, enrolment and teachers at the different education levels. Table 2 presents the data on the pattern of funding of the educational levels by the Federal government.

Table 2. *Pattern of Federal Government funding of Education by levels, more 1996 – 2002.*

Education	1996	1997	1998	1999	2000	2001	2002
Levels	%	%	%	%	%	%	%
Tertiary	79.9	78.9	68.4	69.1	75.8	68.1	76.9
Secondary	10.4	11.3	14.6	18.7	15.3	15.5	15.6
Primary	9.7	9.8	16.9	12.2	8.9	16.4	7.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The issue of gaps in the institutional capacity to deliver primary education of a sound quality is also crucial in the management of primary education in Nigeria. It known facts that most of our institutions do not have vision whether written or unwritten, nor a mission statement to guide their activities. There is widespread shortage of qualified teachers, shortage of even classrooms, shortage of both pupils' and teachers' furniture and a dearth of required fund, teaching materials and textbooks.

In the year 2000, 725,575 candidates sat for WAEC and those that passed at the qualifying level that can earn their admission to higher institutions were 58,864; for 2001, the number that sat for the examination was 1,099,296 and those that qualified for admission to higher institutions were 178,054; for 2002, the number that took the examination was 1,224,381 and those that qualified were 188,494. In 2005, those that sat for WAEC were 1,742,663 and 203,991 qualified for admissions into higher institutions. What is meant here by qualification at this level to higher institutions are candidates that pass at credit level in 5 subjects including Mathematics and English language.

For graduate output in 2001, 47,791 were produced, 2002, 58305, and in 2005, 26042. Graduate output here refers to those who obtained their first degrees from various universities.

2.3. Education Funding in Nigeria

The financing of education is at the heart of the educational crisis in many countries of the world. In Nigeria, there appears to be a perennial crisis of funding and lack of definite structures and strategies in funding of education. The overall vision in the current government aims at making Nigeria, one of the top twenty economies in the world by the year 2020. Given the economic revolution that is going on in the rapid developments in information and communication technology (ICT), it is obvious than any country that wants to be reckoned with in the global arena must be outstandingly advanced in education. This initiative conforms with Owoye (2010) that the objectives of education in any country represents the country's statement of intentions regarding what aspect of its social, economic and political needs and aspirations can or should be addressed by educational system. A review of the country's past would reveal that the role of education has always been appreciated. In spite of this articulation of objectives, what is equally obvious is that, all the initiatives introduced have been poorly implemented for various reasons, prominent which are unsustainable funding.

The Universal and Compulsory Primary Education (UPE) was introduction in 1976, without adequate preparation in terms of the number of classrooms required, number of qualified teacher available and the extent to which available resource could last. More than thirty years after that initiative, the educational sector at all levels is still characterized by poor performance and one of major explanations for this, is the crisis of funding, definite structures and strategies for addressing the problem. Eyiche (2012). He further said that this Manifestation of poor funding of Nigeria's education from the mid 1970s into 2000s causes widespread cases of arrears of unpaid teachers" salaries, school infrastructures, and equipment are non-existent, dilapidated or grossly inadequate. This makes the effective management of the education system a Herculean task, and when the situation becomes intolerable, either the teachers or the students or both revolt, leading to demonstrations, strike actions, frequent and often prolonged closure of the institutions damage to educational quality.

2.4. The Challenges of Funding Education in Nigeria

The challenges of Nigeria education sector in general and its funding in particular could be traced to policy and strategy instability and inconsistency, inefficient management, wastage and leakages there by overriding macroeconomic conditions that have determined the fate of the sector and where the economy is not growing at a reasonable high and sustainable rate, it will not have the resources to fund a largely – social service sector such as education in Nigeria with a high population growth rate, lackluster growth rate of the GDP would imply severe resource constraints, which could lead to the poor resourcing of social sector such as education, as could be seen for most of the period 1970 – 2013, the country recorded either negative GDP growth rates or low positive growth rates. It should not be surprising therefore, that education has been poorly funded over the period. So the Government depends heavily on oil for an average of about 80% of its total revenue, while non-oil (agriculture, solid minerals and other resources) revenue contributes much less-an average of about 20%. The problem with this revenue structure is that oil revenue on which the Government depends heavily is highly exposed to the volatiles of the price of oil in the international market, Such derived fluctuations in the major revenue item of government means that without careful planning and rationalization of expenditure of the revenue, the implementation of government projects and programmes would be subject to frequent disruptions and distortions. Debbie (2012).

An examination of the records shows that the Nigerian Government has tended to embark on ambitious education programmes in spontaneous response to oil booms. In 1973-1979 Nigeria experienced the first oil boom as a result of the Arab oil embargo against the U.S.A. In 1990, there was a second oil boom because of the Gulf war and the United Nations trade embargo on Iraq and Kuwait. A third oil boom started from 2003 fuelled mainly by galloping economic growth and attendant high energy demand in several emerging economies, spectacularly, China. It was in response to the windfall revenues resulting from the 1973-1979 oil booms that the Nigerian Government in 1976 introduced the Universal Primary Education. This laudable programme caused a dramatic expansion in the demand for educational services at the primary level. But the financial resources became inadequate, particularly following the collapse of oil prices.

3. Conceptual Review

Fiscal federalism is a byproduct of federalism. Federalism is a political concept in which power to govern is shared between national, and subnational governments creating what is often called a federation (Arowolo 2011, Akindele and Olaopa, 2002). Federalism is a political concept in which the power to govern is shared between national, states and local governments, creating what is often called a federation (Arowolo, 2011, Akindele and Olaopa, 2002). Arowolo (2011, p.4) states that "It is a political theory that is divergent in concept, varied in ecology and dynamic in practice". According to Vincent (2001), the concept of federalism implies that each tier of government is coordinate and independent in its delimited sphere of authority and should also have appropriate taxing powers to exploit its independent sources of revenue.

Fiscal federalism demands that each level of government should have adequate resources to perform its functions without appealing to the other level of government for financial assistance (Wheare, 1963): "If state authorities, for example, find that the services allotted them are too expensive for them to perform, and if they call upon the federal authority for grants and subsidies to assist them, they are no longer coordinate with the federal government but subordinate to it. Financial subordination makes an end of federalism in fact, no matter how carefully the legal forms may be preserved. It follows therefore that both state and federal authorities in a federation must be given the power in the constitution each to have access to and to control, its own sufficient financial resources. Each must have a power to tax and to borrow for the financing of its own services by itself".

For any federation to be sustained there must be fiscal decentralization and financial autonomy. Fiscal decentralization means delegating decision-making to lower levels of government instead of concentrating it at the central. Each level of government, therefore, should be free to take decisions and allocate resources according to its own priorities in its own area of jurisdiction. In addition, the federating units should be able to act independently on matters within their own jurisdiction (Ewetan, 2011).

3.1. Theory of Fiscal Federalism

The basic foundations for the initial theory of Fiscal Federalism were laid by Kenneth Arrow, Richard Musgrave and Paul Sadweh Samuelson. Samuelson's two important papers (1954, 1955) on the theory of public goods, Arrows discourse (1970) on the roles of the public and private sectors and Musgrave's book (1959) on public finance provided the framework for what became accepted as the proper role of the state in the economy. The theory was later to be known as "Decentralisation Theorem" (Ozo-Eson, 2005).

This framework identifies three roles for the government sector. These are correcting various dimensions of market failure, maintaining macroeconomic stability, and redressing income inequality. The central government is responsible for the correction of market failure and maintenance of macroeconomic stability, while the subnational governments and the central government are jointly responsible for redressing income inequality (Ozon-Eson, 2005).

This principle, which Oates (1972) has formalized into the "Decentralization Theorem" constitutes the basic foundation for what may be referred to as the first generation theory of fiscal decentralization (Oates, 2006a; Bird, 2009). The theory focuses on situations where different levels of government provide efficient levels of outputs of public goods "for those goods whose special patterns of benefits are encompassed by the geographical scope of their jurisdictions" (Oates, 2006b). Such situation came to be known as "perfect mapping" or "fiscal equivalence" (Ma, 1995; Olson, 1996).

Thus, it is recognized that there would be local public goods with inter-jurisdictional spill-overs. For example, a road may confer public goods characteristics, the benefits of which are enjoyed beyond the local jurisdiction. The local authority may then under-provide for such a good. To avoid this, the theory then resort to traditional Pigouvian subsidies, requiring the central government to provide matching grants to the lower level government so that it can internalize the full benefits.

Based on the preceding, the role of government in maximizing social welfare through public goods provision is assigned to the lower tiers of government. The other two roles of income distribution and stabilization are regarded as suitable for the central government. From the foregoing, the role assignment which flows from the basic theory of fiscal federalism is summarized as follows: The central government is expected to ensure equitable distribution of income, maintain macroeconomic stability and provide public goods that are national in character. Decentralized levels of government on the other hand are expected to concentrate on the provision of local public good with the central government providing targeted grants in cases where there are jurisdictional spill-overs associated with local public goods.

Once the assignment of roles had been carried out, the next step in the theoretical framework is to determine the appropriate taxing framework. In addressing this tax assignment problem, attention is paid to the need to avoid distortions resulting from decentralized taxation of mobile tax bases. Gordon (1983) emphasizes that the extensive application of non-benefit taxes on mobile factors at decentralized levels of government could result in distortions in the location of economic activity.

Following from the assignment of functions, taxes that matched more effectively the assigned functions are also assigned to the relevant tier or level of government. For example, progressive income tax is suited to the functions of income redistribution and macro-economic stabilization and is therefore assigned to the central government. On the other hand, property taxes and user fees were deemed more appropriate for local governments. Benefits taxes are also prescribed for decentralized governments based on the conclusion that such taxes promote economic efficiency when dealing with mobile economic units, be they individual or firms (Olson, 1982).

The final element of this basic theory is the need for fiscal equalization. This is in the form of lump sum transfers from the central government to decentralized governments. The arguments for equalization are mainly two. The first which is on efficiency grounds sees equalization as a way of correcting for distorted migration patterns. The second is to provide assistance to poorer regions or jurisdictions. Equalization is important in a number of federations. For example, Canada has an elaborate equalization scheme built into her inter-governmental fiscal arrangements (Boadway and Hobson, 2009; Weingast, 1995).

It necessary to point out that recent literature emphasizes the importance of reliance on own revenues for financing local budgets. A number of authors (Weingast, 1997; Mckinnon, 1997) draw attention to the dangers of decentralized levels of government relying too heavily on intergovernmental transfers for financing their budgets. These are lessons that Nigeria's fiscal system should draw from in order to ensure macroeconomic stability.

3.2. Fiscal Federalism in Nigeria

Table 3. *Major Taxes in Nigeria and their Jurisditions.*

		Jurisdiction	
S/N	**Types of Taxes**	**Legislations**	**Administration and Colletion**
1	Excise Duties	Federal	Federal
2	Export Duties	Federal	Federal
3	Import Duties	Federal	Federal
4	Mining rents and Royalties	Federal	Federal
5	Petroleum Profit Tax	Federal	Federal
6	Companies Income Tax	Federal	Federal
7	Value Added Tax (VAT) Personal Income Tax for Armed Forces	Federal	Federal
8	External affairs offices, and FCT	Federal	Federal
9	Capital Gain Tax	Federal	State
10	Personal Income Tax	Federal	State
11	Licence Fee for TV and noiseless radio	Federal	State
12	Stamp duties	Federal	State
13	Estate Duties	Federal	State
14	Gift tax	Federal	State
15	Sales/purchase tax	Federal	State
16	Football pool and other betting taxes	State	State
17	Motor Vehicle tax and drivers license fees	State	State
18	Entertainment Tax	State	State
19	Land registration and survey fees	State	State
20	Property tax	State	Local
21	Market and trading license and fees	State	Local

Source: Federal Republic of Nigeria 1999 Constitution. FIRS, 2016

Table 4. *Summary of the Structure of Nigeria Tax System.*

	Jurisdiction	
Number of Taxes	**Legislation**	**Administration and Colletion**
Federal Government	15	8
State Government	6	11
Local Government	0	2
Total	21	21

Source: Development Policy Centre. !998. FIRS, 2016,

Over the years, the fiscal structure in Nigeria has always been tilted in favour of the efficiency criterion. Few revenue sources (taxes) could be adjudged as regional and therefore assignable to either the state or local government units. Further, a distinction exists between the ability to legislate for and ability to collect a particular tax. In Nigeria, available evidence drawn from the current jurisdictional arrangement shows that both types exist. However, all major sources of tax revenue are vested in the federal government, in respect both of legislation and collection. These sources are: import duties, excise duties, export duties, mining rents and royalties, petroleum profit tax and company income tax (see Table 3). This tax structure is simply attributable to the bias for the efficiency criteria in Nigeria. The principal tax with shared jurisdiction is the personal income tax. The federal government legislates on this but collects only those of the armed forces personnel and the judiciary (DPC, 1998; FIRS, 2008). Local governments administer and collect those from other categories of residents in their various domains. For capital gains tax which is under shared jurisdiction, the federal government legislates while the various state governments administer and collect the taxes. (Kolawole Olayiwola and Evans Osabuohien S.C 2009)

Furthermore, the federal government exercises legislative control over 15 tax services out of the total of 21, which represents about 71.1%. In contrast, the states are responsible for the administration and collection of 11 taxes indicating 50% while local governments are responsible for administering and collecting only 2 taxes representing just 5.3% as shown in Table 3. This kind of structure leads to what can be referred to as Fiscal 'Hydrocephalus'. Hydrocephalus is a medical condition in which the head gets very big whilst the limbs and the rest of the body become very stunted. It is a condition arising from the accumulation of excess fluids in the brain and is known to result in serious mental retardation with a high risk of paralysis and even death. The fiscal structure in Nigeria can be likened to this disease as over-concentration of resources at the federal government level is regarded as "big head" and the deprivation of both the state and local governments of necessary resources is referred to "stunted body and limbs". This is unlike what entails in some other countries where the local units have significant resources to meet its obligations. For example, in Japan the local governments have great relevance in the development of infrastructures where about 80% of investment in social overhead capital is made by local governments (Obadan, 2003).

The results of this inefficient fiscal structure become manifesting in various development in the country. The local government that is the closest to the people with 72% of primary school in the country hardly has enough financial resources to pay for both the capital and recurrent expenditure of this level of education. This problem can be the reason for low rate of primary school enrolment in Nigeria (NBS, 2006). The upsurge in the number of private primary schools is a clear attestation to the dwindling quality of public delivery of primary education in Nigeria. Another indicator is health services delivery. The Primary Health care services for the treatment of communicable diseases and maternity matters are under the jurisdiction of local government. The high rates of mortality and morbidity as well as poor children health status clearly demonstrates that the sector is found wanting. The continuous crises of agitation of resource control and environmental pollution especially in the oil producing area is another problem arising from the present fiscal structure.

4. Challenging Issues

Several of the issues in the financing of education in Nigeria are embedded in the virtually endemic problems of fiscal federalism in particular, the so-called vertical and horizontal fiscal imbalances. The first of these deals with the balance between financial responsibilities and financial resources at each level of government: federal (or central), state and local. The second deals with equity across the sub units of each specific level of government such as state or local governments. In Nigeria since Independence, the search for appropriate mechanisms and formulas for minimising each set of imbalances has been particularly problematic. For instance, between 1960 and 1991, sixteen changes were made to the Constitution in attempts to resolve these issues. Education figures centrally in these debates for several reasons. First, primary school enrolments are part of the allocation formula for distributing centrally collected revenues across states. Second, the education sector typically consumes a significant share of state and local government resources. And third, the financial responsibility for primary education across levels of government has never been fully resolved. Over the past fourteen years in particular, the sources and modalities for funding this level of education have undergone significant changes. Following a recent Supreme Court ruling, yet another set of arrangements is required.

While much attention in the past forty years in Nigeria has been given to the issues of horizontal imbalances (particularly between states), less has focused on whether the revenue allocation arrangements are sufficient to minimize vertical imbalances and to allow each level of government to perform the responsibilities allocated to it. In the education sector where, in spite of some overlaps, the major financial responsibility for each separate level lies with a different tier of government, it is relevant to ask whether the vertical allocation criteria allow for the provision of ‘appropriate’ funding for the education system as a whole and for each individual level of the system. The current debate on this issue, such as it is, is based on very little information. There is, for instance, no credible estimate of the total amount of public expenditure which is spent by the Federal, state and local governments on education and hence of the sources, levels, trends and distributions across the various educational levels.

This lack of information on education expenditure nationally and for individual states has several other implications. For instance, there is little basis on which to assess issues such as:

(a) Whether the financial effort in this sector has been increasing or decreasing in terms of real expenditures or as a share of public expenditures or of national income;

(b) The distribution of expenditures across the various educational levels either nationwide or in individual states

(c) The relative importance of each level of government in funding education;

(d) the nature, level and importance of vertical and horizontal imbalances as they affect the education sector, and the levels of efficiency and equity of public expenditures in the sector which would provide a quantitative basis for arguments in favor of expanding or re-allocating expenditures;

(e) The future public expenditure requirements, nationally or by state, as the existing enrolment pressures in the system evolve naturally or are encouraged;

(f) Unit costs of each level across states or of different levels within states;

(g) The expenditures which households make in both government and private educational institutions, and the reliance on these at different levels and in different states.

Finally, it is not possible to compare the levels and patterns of education expenditures in Nigeria with those in other countries. In UNESCO and World Bank publications, for example, educational expenditure data for Nigeria are either totally omitted or are recorded for the Federal Government alone (UNESCO, 2000; World Bank, 2001).

5. Arrangements for Managing and Financing Education

The 36 state governments and 774 local governments require substantial revenues to carry out their constitutional responsibilities for education and other services. Compared to the older political federations such as the United States, Australia and Canada, as well as younger ones such as Brazil and India, in Nigeria the lower tiers of government are funded more through revenue sharing arrangements than through locally collected taxes (Hinchliffe, 1995). The statutory allocations have typically averaged over 80 percent of total state revenues since 1975 and only Lagos, Delta and

Rivers States rise above 30 percent of their income from alternative sources (Central Bank of Nigeria, 2001).

Distributions of centrally acquired revenues are of two types: (a) between the Federal governments, all state governments and all local governments, and (b) across state governments and across local governments. Not surprisingly, the criteria on which distributions are made have been center-stage politically throughout the four decades since Independence.

A radical change was made in 1978 away from dividing the revenues from specific taxes towards a division of total revenues. Since then, allocations have been made from the Federation Account and from centrally collected value added tax receipts. The sources of the Account are the receipts from all the major taxes and duties on petroleum, profits, imports and exports. Initially, 55 percent of the total revenues were retained by the Federal Government, 32.5 percent allocated to the state governments and 10 percent to the local governments, with the remaining 2.5 percent allocated on separate criteria (Fiscal Hydrocephalus). These shares have changed over time. The states' overall allocation is then divided between them mainly on the basis of equal shares and population, and the remainder according to indicators such as primary school enrolments and fiscal effort. Allocations between local governments are made on a broadly similar basis. Since independent sources of revenue to the state and local governments are few, variations in the aggregate revenues of the Federation Account resulting from fluctuations in world oil prices produce large annual variations in incomes.

Over time, the powers and responsibilities of the various levels of government in Nigeria have changed as a result of both changes to the Constitution and the perceived abilities of each government to undertake the financial and managerial responsibilities which they have been assigned. In the public education sector, no single tier of government has absolute responsibility, and for each sub-sector there are varying degrees of overlap. Since 1979, university education has been assigned to both Federal and state governments, but Federal institutions provide places for a large majority of students. Other areas of tertiary education such as polytechnics and teacher training colleges are also managed and financed by both of these tiers of government.

All of secondary education is managed and financed by the state governments apart from the 96 Federal Government Colleges (unity schools and federal technical colleges) which are spread across the country. In general, the financing and management processes for secondary and tertiary education have been stable. This has not been the case for primary schooling. Over the past two decades, many changes have occurred. The guidelines for local government reform in 1976 included primary education among those activities "which should be regarded as local government responsibilities although state governments may also perform part or whole of these functions if local governments are not equipped to perform them initially." In the new Constitution of 1979, the role of local governments in the provision and maintenance of primary education was further emphasised. This coincided with a new revenue allocation formula which increased the shares of the centrally collected revenues which are allocated to the state and local governments.

The quid pro quo was the ending of Federal government grants for primary schooling. Unfortunately, for several years total revenues coming into the Federation Account then fell and did not recover even their nominal levels until 1986. As a result, the financing of primary education, and in particular of teacher salaries, increasingly faced a crisis through the 1980s. The response of the Federal Government in 1988 was to establish the National Primary Education Commission (NPEC) to coordinate and supervise the development of primary education across the country, and to contribute 65 percent of the estimated total cost of primary teachers' salaries. The intention was that the local governments would contribute a further 20 percent with the state governments providing the rest. At the same time, the Federal Government's share of the Federation Account was reduced from 55 to 50 percent and that of local governments rose from 10 to 15 percent. While overall the states were appreciative in principle of the increased funding, resentment developed over the powers of NPEC and, in southern states, the manner in which the Federal funds were distributed across states was regarded as discriminatory against those with large educational systems.

The reaction of the Federal government took the states by surprise. In 1991, full responsibility for primary schooling was transferred to the local governments and their share of the Federation Account was increased to 20 percent and that of the states reduced to 25 percent, NPEC was abolished and Federal financial support withdrawn. This led to even greater uncertainty and the situation deteriorated further. In 1993, another system was established (Francis, 1998). NPEC was re-established and the actual cost of teacher salaries began to be deducted at source from the Federation Account allocation to each local government. This arrangement remains in place but changes are again being debated.

6. Conclusion

Education is both a private good and a public good. It is a private good because it is a process of investing in the development of labour (human resources), which is one of the factors of production and which earns income in exchange for its contribution in the production process. Levine (2012) concluded that education can be appropriately funded in the context of the market demand and supply framework. Alternatively, education is also a public good. Among the reasons for this, is that an education population is considered, ceteris paribus, necessary for an orderly and civilized society that is required for the building of a viable democratic society. It is also an important factor in determining the national identity and a country's location in the global scale of civilization, from this perspective; education does not just confer some benefits on the individual but also on the community. With a population that is growing at a rate of 2.6% and a funding rate for the education sector that does not have a clear pattern but which can best be described as declining, the future of Nigeria is gloomy. According to the Central Bank of Nigeria (2000), poor financial investment has been the bane of Nigerian education system, Nigeria has been in this funding crisis for many years, and has culminated in shortage of material and human resources in the system: lack of qualified teachers; high low rate turnover of teachers; shortage of classrooms; poor learning environment; inadequate commitment from teachers; decline in the quality of education offered; insufficient admission spaces, examination malpractice, cultism, brain drain, inadequate laboratories for teaching and research, shortage of books and journals, indiscipline, low remuneration, inconsistent and ill-conceived policies and a myriad of other problems. These problems are pronounced at each of the three levels of the educational system: primary, secondary and tertiary.

Poor quality primary education produce poor candidates for the poor quality secondary education, which in turn produce very poor candidates for the poor quality tertiary institutions of learning; that deliver unfinished professionals to the marketplace for stagnation and further retrogression of our national development... By marketplace, I mean the dynamic world of industry, business and commerce with public, large, medium and small firms as well as individual entrepreneurs as the key players; and which dictates the demand and supply of professionals, highly skilled, skilled, semi-skilled and unskilled labour for enhancement of job flows that are characterized with hiring, firing, promoting, retiring and hopping from one job to another for the ultimate purpose of ensuring exchange of worthwhile goods and services (Kpolovie, 2012, 88). In most cases, the unbaked professionals and even the very few finished ones, cannot practice their professions; with mechanical engineers who are turned to low income traders; accountants who are forced to become self-subsistent farmers; medical doctors who are frustrated to become fake pastors; educationists that are turned to heartless politicians; and so on, by the jobless and most unfriendly business environment in Nigeria.

The high rate of expansion of the Nigerian educational system implies that something urgent must be done to adequately fund the system. The explosion in enrolment as a result of the influx of students into primary and secondary schools calls for immediate government attention in drastically increasing annual allocations and in employing other sources of funding education. The high rate of schools' enrolment has rendered short-term educational forecasts unreliable. The explosion in enrolment has led to the creation of morning, afternoon, and evening schools in some primary and secondary schools; and to oversubscribed part-time programmes in tertiary education in many States of the Federation, in some cases, for the award of unmerited certificates and production of uneducated graduates (Ololube and Kpolovie, 2012; Kpolovie, 2012).

Although, the public sector has assumed the principal responsibility for financing education (Albrecht and Ziderman, 1994), the position of the Nigerian government is suspect. The dominant role of government in this field relates to the benefits society derives from an educated population, with the popular view being that education is critical to the wealth and international competitiveness of nations (Finnie, 2002).

Although Nigeria's educational institutions in general are in dire need, the most troubled of the three tiers is the primary education sector where there are no classrooms and classes are held under trees with pupils and their teachers defecating in nearby bushes. The quality of teaching-learning transaction under such an inhumane condition cannot be anything to be proud of. It is grossly worrisome that with this dismal state of education in the land, the government is still allocating less money to the educational sector. When Nigeria's percentage of total annual budgetary allocations to education are compared with those of other less affluent African countries, the picture becomes not only very disturbing, but a reflection of imminent disaster for the nation. Recall that the percentage of total annual budgetary allocations to education are: Botswana, 19.0%; Swaziland, 24.6%; Lesotho, 17.0%; South Africa, 25.8%; Cote d'Ivoire, 30.0%; Burkina Faso, 16.8%; Ghana, 31%; Kenya, 23.0%; Uganda, 27.0%; Tunisia, 17.0%; and Morocco, 17.7% while that of Nigeria on the average is less than 6 % and in 2013 is 8.7% (Odika, 2013; World Bank, 2012; Oseni, 2012; Central Bank of Nigeria, 2013; Kupoluyi, 2012).

Recommendations

The evolution of fiscal federalism evolved a theoretical basis for fiscal federalism and discussed extensively on the nature and challenges of fiscal relations in Nigeria. The paper concluded that fiscal responsibility and taxing powers still remain considerably centralized. "The Federal Government always receives larger amount in the sharing formula and with less impact on the people" (Arowolo, 2011, p. 17). Any reliable revenue allocation and utilization system must practically reflect the Federal nature of our country. The lopsided nature of fiscal arrangement in favour of the federal government is detrimental to fiscal operations of state and local governments and this has impacted negatively on socio economic development of Nigeria. Greater emphasis should be laid at the grassroots where the bulk of the people live and where development appears to be virtually non-existent.

A number of factors have inhibited the practice of fiscal federalism in Nigeria. These include the dominance of the federal government in revenue sharing from the Federation Account, the centralist system of fiscal relations, critical issue of over dependence on oil revenue, conflict over sharing principle, and disharmonious federal-state relations.

"The intractable problems arising from the widely unacceptable and constant conflicting fiscal federalism in Nigeria need urgent measures" (Arowolo, 2011).

Accordingly, the following recommendations are proffered.

Government, recognizing basic education as a public good, accepts the responsibility of providing it free for all citizens. In essence, government aims at guaranteeing the supply, as well the demand for basic education.

The need to reverse the age long fiscal dominance by the federal government in order to re-establish a true federal system is strongly recommended. The solution is to redress the prevailing mismatch by raising the level of taxing assignment of subnational governments.

The need for an efficient formula between the center and other tiers of government is recommended. This formula should also satisfy the broad objectives of inter-regional equity and balanced national development. To this end the present vertical revenue allocation formula should be reviewed by the federal government to increase the percentage to lower governments in Nigeria to strengthen their fiscal capacity and enable them play strong role in nation building.

Also, it is imperative to embark on radical diversification of the Nigerian economy to other viable and productive sectors of the economy, such as agriculture, mining, industry and human development

Urgent reform in fiscal federalism in Nigeria to address the constitutional issue of fiscal powers among the three tiers of government to redress the prevailing fiscal mismatch at subnational levels of government is strongly recommended.

The need to diversify and strengthen the fiscal base of subnational governments is recommended. To this end, local tax administration should be improved, unproductive local taxes eliminated, and untapped tax potentials identified.

The need to promote fiscal discipline at all levels of government to sustain macroeconomic stability is strongly recommended. The policy should compulsorily place effective limits on governments' deficits at all levels, consistent with the objective of macroeconomic stability to ensure sustainable national development.

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