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FISCAL POTENTIALS AND DEPENDENCE IN NIGERIA

Godwin E. Akpan
Department of Economics
University of Uyo
Uyo, Nigeria

ABSTRACT

This study surveys the resource base of Nigeria and explains how it can be used to reduce the different scales of fiscal dependency within the economy. Nigeria has a strong and diversified natural resource endowment, which can be exploited to engender high revenue base. High fiscal dependency exists both in revenue sourcing and in intergovernmental fiscal relations. Increased fiscal incentives to investment in non-oil sectors can ultimately generate a diversified revenue base. The federal government ought to devolve some of its tax powers on the state government and reward internal revenue generation efforts of the state governments in order to stimulate healthy fiscal independence and competition among states.

1. Introduction

THERE are various dimensions of fiscal dependence. Government at different levels depend on one another for the derivation of their revenue. On the other hand, some sources of revenue consistently account for higher proportions of the total revenue than others, which is another form of fiscal dependence. The first can be regarded as *allocative or distributive* dependence while the latter may be referred to as *derivative* dependence in fiscal administration. Allocative dependence has long been in practice in Nigeria. The country has had a long history of mutual dependence among different tiers of government which can be broken into two different phases. The first was the period before the discovery of crude oil when agriculture sustained the economy in a loose federal structure. At that time, the component regional governments retained the principal ratio of revenue accruable to them from the export of agricultural produce and only sent a little fraction of it for the upkeep of the central government. During the period, the central government practically depended on the regional governments for its revenue. The oil boom period was, however, marked by concentration of fiscal resources in the federal government while the component units of government were compelled – directly by the national revenue allocation laws and indirectly by their low level of economic development – to depend on the central government for their fiscal financing. The laws on revenue generation and the formula for allocation have serious impacts on the incentives for internal revenue capacity building of different tiers of government, and on their fiscal independence and self-sustainability.

Generally, Nigeria has everything to make federalism thrive, but official policies are not administered in a way to intensify development. One of such elements is the spatial differences in the distribution of natural resources, which is the revenue base of the various tiers of government. Naturally, and in all lines of endowment, different parts of Nigeria are endowed differently for the equitable development of each part. But, unfortunately, these resources are not, and for various economic reasons, cannot be exploited at the same time to guarantee equity in development and reduction in interregional inequality, tension and crises. This is because exploitation of natural resources for development does not only depend on physical endowment, it is also influenced by the direction of world trade and development, and the internal capacity of each region to exploit the resources. Thus, even though Nigeria is endowed with gold, common salt, aluminium, iron ore, columbite, clay, kaolin, uranium, limestone and crude petroleum, to mention just a few, the present level of the nation's technological development combined with world trade opportunity can only guarantee rapid exploitation and expansion of petroleum mining industries. Until recently, mining of other minerals was not given adequate attention by the government. Analogously, the different agricultural products of Nigeria have not been properly harnessed. This was partly because of the "Dutch Disease" effects of oil trade and the unfavourable terms and direction of international trade coupled with government's neglect of agriculture during the oil boom years.

The replacement of agricultural sector dominance by the rapidly growing petroleum mining sector, therefore, has serious implications for the revenue generation and fiscal plan of the government. Just as tax proceeds from agricultural exports formed the primary source of revenue to the federal and regional governments prior to 1970, even so have petroleum profit tax and royalty been the major source of revenue to the federal, state and local governments since 1970. Some remarkable differences between the two periods have been that, first, the tradeable commodity, i.e., petroleum, is currently located in the Niger Delta areas and the southeastern region in the southern part of the country, whereas, in the preceeding trade regime, there

was a fair spread of tradeable produce across the country. Second, the revenue sharing bases have been reviewed continually to discard revenue derivation and magnify the principles of equality, access to development opportunities, and minimum standards for national integration. The aim of the political leadership on revenue allocation has been to ensure that both the poorly-endowed and richly-endowed areas develop at a fairly equal pace. This balanced development objective of revenue allocation fails to address practical issues of (i) incentive to fiscal independence; (ii) environmental impact of resource exploitation; (iii) intergenerational gap created by present resource exploitation; and (iv) balancing present losses (opportunity costs) with gains/benefits to the areas where the revenue generating resources are located. This paper, however, concentrates on incentives to fiscal independence and attempts to answer the following questions in relation to the Nigerian fiscal dependency:

a. what are the basic causes and nature of fiscal dependency experienced in Nigeria?
b. what are the opportunities available to alleviate the dependency?
c. what should be done to chart a new and sustainable direction for fiscal development in Nigeria?

In order to answer these questions, this paper focuses on revenue sourcing and the degree of dependence of each tier of government on the different sources to finance their expenditure. The effect of the precarious revenue sources on development are also highlighted in the course of the study. The paper is divided into five sections. Section 1 is introductory, followed by section 2 which deals with some theoretical issues on revenue potentials and development. Section 3 analyses the revenue structure and dependence while section 4 evaluates the resource potentials for a dependable fiscal base. The study is concluded in section 5.

2. Some Theoretical Issues on Revenue Potentials and Development

Matters relating to revenue potentials of any region or geographical zone border on the spatial distribution of resources and the harnessing of the resource endowment to generate economic goods and services. The analysis has to do with Mydral's (1957) and Hirschman's (1958) conception and classification of development regions into places which have greater potentials for development due to a preponderance of resource endowment and others that do not have these advantageous factors. This generates dualism in spatial development within a country and within regions in the country. The imbalance in resource endowment and disparity in transformation efficiency necessarily result in spatial imbalance in economic development, which, in turn, creates competition and tension among regions. According to Ayoade (1988), the use of federalism to suppress such social pressures only results in a perpetual balancing of tension in the attempt to create unity without union.

One of the means used in federalism to quell this tension is the adoption of fiscal principles. In this case, the central (or federal) government allocates functions and tax power to the component units of government. This allocation of functions and tax power creates a central problem in fiscal federalism, which is the need to steer a balance between allocation of function and tax power for each unit of the federation. Mbanefoh (1993: 62) argues that "it is virtually impossible in a federation to satisfactorily adjust the financial resources of members to the functions entrusted to them." Indeed, this imbalance is not created by federalism; it is only heightened by the interference with natural equilibrium which allows the units to undertake functions based on the adequacy of its internal finances. In Nigeria, this imbalance of responsibility and tax power is further aggravated by the concentration of major sources of revenue at the federal level (Anyanwu 1997).

Fiscal concentration at the federal level has led to the quest for fiscal independence (autonomy). The resolution of the problem (i.e. of revenue concentration at the federal level and the consequent dependence of the component units on federal allocations) is weighed against the inefficiency of the lower levels of government to manage large resources (Mbanefoh 1993). This was demonstrated during the Babanginda administration when revenue allocated directly to local government authorities for the funding of primary education and primary health care delivery was grossly abused. This led to the withdrawal of certain responsibilities like payment of primary school teachers' emoluments from the local government by the Abacha regime in 1994. Cases of inefficiencies abound even at the federal government level. For instance, the World Bank (1996) puts the federal government extrabudgetary expenditure between 1991 and 1993 at about 50 per cent of the annual approved budget. Since most of these expenditures never went through formal processess of budgetary approval, a sizeable proportion ended up in private accounts. Again, budgetary transparency has been veiled off since the late 1980s through the creation of several off-budget accounts, like the AFEM Surplus Account, Federal Government Stabilization Account, Petroleum (Special) Trust Fund, National Priority Project Fund, and National Economic Recovery Fund, all of which were used to run parallel budgetary expenditure by the federal government. This parallel budgeting is sufficient ground to question the efficiency rationale behind fiscal concentration at the federal level.

The most discussed issue on the Nigerian fiscal federalism has been the revenue allocation principles (see Ekpo and Ndebbio 1991; Kayode 1993; Emenuga 1993; and Anyanwu 1996). There is a great dissatisfaction among government units on the revenue allocation formula. While poorly-endowed areas insist on equality, land mass, population and development needs as criteria for revenue allocation, the well-endowed ones prefer a revenue sharing principle based on revenue derivation. Up till now, the revenue sharing principle in Nigeria is arbitrary and unstable as observed by Emenuga (1993).

In essence, the Nigerian federal fiscal laws and operations can be seen as an apparatus used by the power elite to draw fiscal power to the federal government. The appropriation of the fiscal resources realized from this arrangement is such that the resource-poor but politically strong areas gain at the expense of the resource-rich but politically weak ones. Factors leading to the unlimited fiscal empowerment of the federal government in Nigeria have been listed by Ayoade (1988, 1997) as including differences in spatial distribution of resources, fear of domination by the northern political bloc, and the weakening of state governments through rapid proliferation of states in the federation. Another important factor in the fortification of federal power is the introduction of the command structure by the military governments into the politics of Nigeria. The effect of this, as observed by Mbanefoh (1986), has been the erosion of states' and local governments' tax powers by the military. The effects of excessive concentration of powers at the federal level can be summarized in the flow chat in Fig. 1 below. The effect of federal power concentration is ultimate dissolution of the very nation-state structure from which the power is drawn and abused.

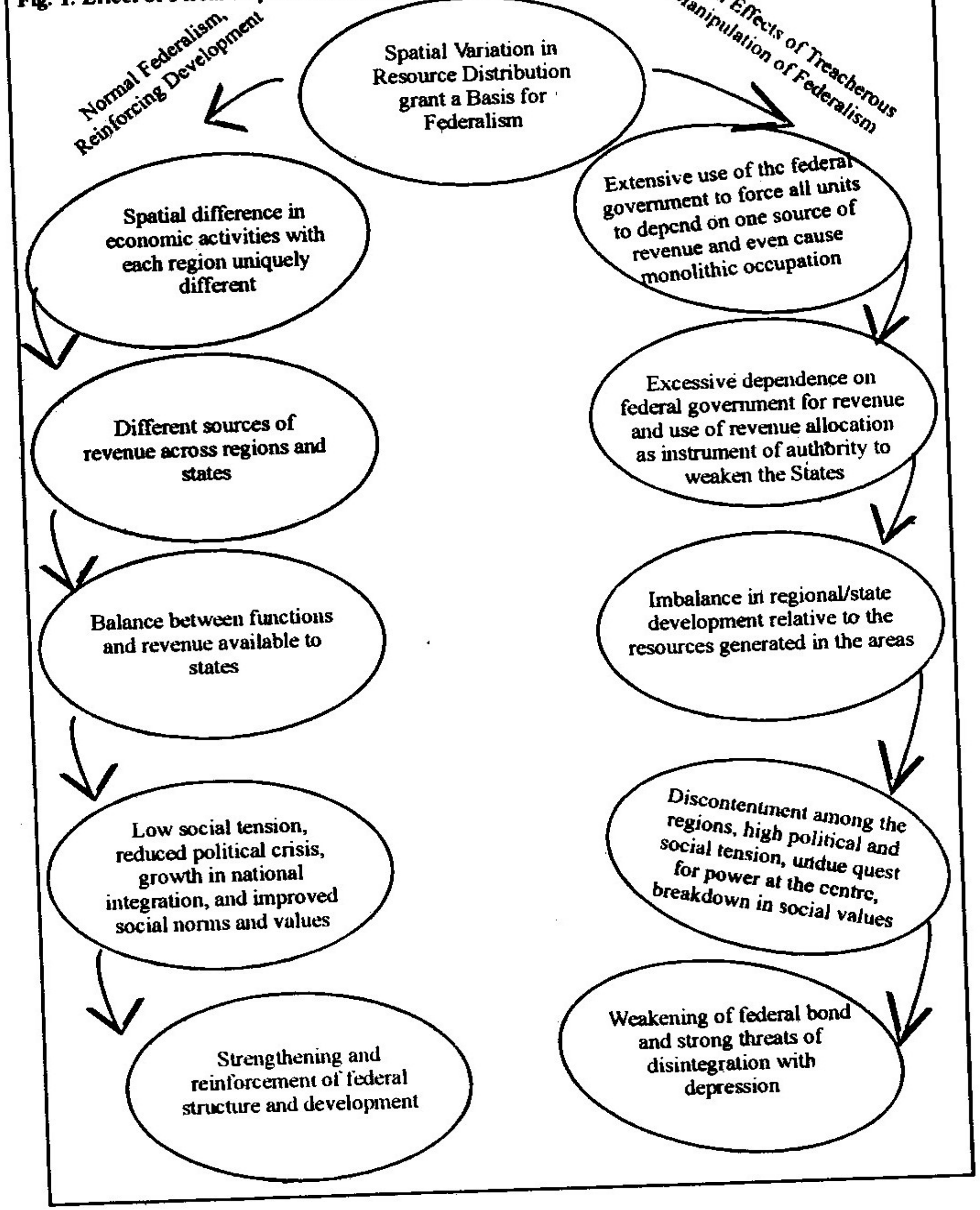
3. Revenue Structure and Fiscal Dependence

We shall discuss revenue structure from the point of view of its source or revenue base and the structure of intergovernmental fiscal relations. In doing this, we shall use some fiscal ratios to demonstrate the undependable level of revenue generation and fiscal relations among various tiers of government, which is crisis-oriented and capable of crippling development efforts at all levels.

3.1 Revenue source dependence

One major characteristic of Nigerian fiscal federalism has been the monolithic source of its revenue at every point in time. After the pre-independence era of massive dependence on agricultural produce, export duties and marketing

Fig. 1. Effect of Fiscal Dependence on Federalism



board surplus funds, there arose even a worse oil revenue dependence syndrome which destroyed other sectors. Between 1980 and 1996, revenue from oil sources, comprising petroleum profit tax, oil royalty, rent, NNPC joint-venture profit, and licence fees, jointly accounted for 73.7 per cent of the average share of total federally collected revenue. Revenue from these sources also accounted for 64.6 per cent during 1970-1979 (not shown in the table due to space). Furthermore, the same sources maintained the average share of 73.9 per cent between 1990 and 1996 (see Table 1). Since the introduction of value added tax (VAT) in 1994, the share of oil revenue in the total federally collected revenue has fallen from 79.3 per cent in 1994 to 53.2 and 51.1 per cent in 1995 and 1996.

The non-oil revenue, comprising proceeds from income (personal and company) taxes, import duties and fees, export duties, excise duties, stamp duties, casino tax, airport tax and penalties, is merely supplementary to oil revenue. Between 1980 and 1996, non-oil revenue only accounted for 24.1 per cent of the total revenue. This is a very low ratio. It shows that the governments' revenue diversification capacity is as low as 24 per cent while its dependence on oil is about 76 per cent.

This high dependency ratio is dangerous to the economy for some important reasons. First, the oil industry is a small sector in the Nigerian economy with an average GDP share of 13.15 per cent from 1980 to 1996, sustaining about 1.00 per cent of total employment in Nigeria during the period. Again, the sector has very low linkage effect on the rest of the economy because its output is mostly exported as crude oil without any manufacturing linkage. As a result, petroleum activities have generated low linkage revenue for government from other sectors. Second, consequent upon the exportation of crude oil, with a small margin (only 15.6 per cent of crude oil produced between 1980 and 1993) reserved for domestic use, the tendency is for the economy to be seriously affected by the shocks from the international oil market. This has been demonstrated by several market shocks and policy changes following oil price falls. The structural adjustment programme (SAP) (1986 - 1993) and the 1998/99 upward and downward revision of public sector salaries are examples of policies based on oil price performance. The simple lesson is that unstable oil prices make fiscal policies unstable, especially in a monocultural economy.

Low export earnings due to unfavourable terms of trade against primary products in the world market are the direct results of the exportation of crude petroleum and other primary products. This has serious implications for the purchasing power of the economy and, therefore, the size of market for manufactures. At the moment, workers' average monthly income is still lower

Table 1. Ratio of Fiscal Relationship between Sectors and Tiers of Government ((1) – (7) in million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Oil Revenue (1)	12353.8	8564.4	7814.9	7253	8269.2	10915.1	8107.3	19027	20933.8
Non-oil revenue (2)	2880.2	3615.8	3949.5	3255.7	2922	3691	4194.7	6027	6377
Total federally collected revenue (3)	15234	12180.2	11764.4	10508.7	11191.2	14606.1	12302	25099.8	27310.8
Fed. govt. independent revenue (4)	na	na	na	709	503.1	577.8	1364	1296.8	540.5
Fed. statutory revenue to states (5)	4128.6	3825.6	3245.7	2958.5	2799	3260.8	2843.8	6197.1	8181.3
States' total internally generated rev. (6)	1327.7	1049	1315.8	1370.9	1381.3	1584.1	1587.4	1954.5	2178.8
States' total current revenue (7)	5456.3	4875	4335.4	4329.4	4180.3	4844.9	4431.2	8151.6	10360.1
Oil dependency ratio: (1)/(3)	0.811	0.703	0.664	0.690	0.739	0.747	0.659	0.758	0.767
Share of non-oil rev. in total rev. (2)/(3)	0.189	0.297	0.336	0.310	0.261	0.253	0.341	0.240	0.233
Ratio of independent rev. to total revenue (3)/(4)	na	na	na	0.067	0.045	0.040	0.111	0.052	0.020
States' dependence on fed. rev. (5)/(7)	0.757	0.785	0.749	0.683	0.670	0.673	0.642	0.760	0.790
States' internal rev. to state total rev. (6)/(7)	0.243	0.215	0.304	0.317	0.330	0.327	0.358	0.240	0.210
States' internal rev. to total fed. rev. (6)/(3)	0.087	0.086	0.112	0.130	0.123	0.108	0.129	0.078	0.080

Table 1. Contd. Ratio of Fiscal Relationship between Sectors and Tiers of Government ((1) – (7) in N' million)

	1989	1990	1991	1992	1993	1994	1995	1996	Average over years
Oil revenue (1)	41334.4	54713.2	82666.4	164078.1	162102.4	160192.4	244902.3	266000	
Non-oil revenue (2)	8937.7	12182.2	18325.2	26375.1	30667	41718.4	135439.7	151000	
Total federally collected revenue (3)	50272.1	66895.4	100991.6	190453.2	192769.4	201910.8	459987.3	520190	
Fed. govt. independent revenue (4)	938	1724	3040.4	4903.1	5626.5	3888.2	20436.4	3407	
Fed. statutory revenue to states (5)	9899.8	15943.8	19434.3	24497.3	27660.6	29006.8	38671.5	40619.1	
States' total internally generated rev. (6)	1602.3	2726.2	3147.1	5244.7	5726.2	10929.8	16992.9	18817.2	
States' total current reveue (7)	11502.1	19116.5	24114.3	32673.6	37740.6	49506.1	69641.6	88882.4	
Oil dependency ratio: (1)/(3)	0.822	0.818	0.819	0.862	0.841	0.793	0.532	0.511	0.737
Share of non-oil rev, in total rev. (2)/(3)	0.178	0.182	0.181	0.138	0.159	0.207	0.294	0.290	0.241
Ratio of independent revenue to total revenue (3)/(4)	0.019	0.026	0.030	0.026	0.029	0.019	0.044	0.007	
States' dependence on fed. rev. (5)/(7)	0.861	0.834	0.806	0.750	0.733	0.586	0.555	0.457	0.711
States' internal revenue to state total rev. (6)/(7)	0.139	0.143	0.131	0.161	0.152	0.221	0.244	0.212	0.232
States' internal revenue to total fed. rev. (6)/(3)	0.032	0.041	0.031	0.028	0.030	0.054	0.037	0.036	0.072

Source: CBN *Annual Report and Statement of Account* (various issues) than $50.00. Low income and weak demand are part of the causes of slow pace of indigenous industrial development – occuring, first due to the resulting weak market and, second, due to the vicious circle of low savings and low investment. Government ultimately loses the internal revenue that such manufacturing activities would have generated through importation of manufactures.

The way out of the high dependence on petroleum revenue is to diversify economic activities. Federal and state governments have made some frantic efforts to enhance the variegation of economic activities in their jurisdictions. Government went into direct production of manufactures in the mid 1970s, but these have not yielded positive results because of the mode of its participation. Government's direct investments, as observed by Akpan (1998), are infected by inefficiency and ineffectiveness. The most efficient way by which government can increase and diversify the size of economic activities is by supplying and maintaining pure public goods like roads, and commercializing/privatizing production and distribution of infrastructure industries. Revenue from a growing sector like oil should be used as incentives to provide infrastructure for other sectors. Private participation in the market should also be encouraged by law to minimize waste.

3.2 Intergovernmental fiscal relations dependence

Another scale of dependence is traceable to fiscal relations among different tiers of government. Fiscal laws in Nigeria seem to give more tax power to the federal government than the two lower tiers of government. The outcome of this concentration of revenue-generation power in the centre is decrease in internally generated revenue by the lower governments in a way that compels dependence on higher governments. The lower-level governments depend on the federal government for larger proportion of their budgeted revenue. The ratio of states' statutory allocation to states' total current revenue is used to measure the states' dependence on the federal government. The ratio depicts the value of states' annual current revenue contributed by the federal account. Between 1980 and 1996, the states depended on the federal government for their recurrent revenue up to 71.1 per cent on average. The dependence at 73.7 per cent during the 1980s, was a little above the 1980-1996 average, which fell to 67.4 per cent between 1990 and 1996. The fall in the ratio of dependence in the 1990s is apparently due to the exclusion of VAT and other grants as components of statutory revenue, which, if added, will make the ratio as high as ever.

These fiscal relations can also be supported by using the states internal revenue generation ratio to measure self-reliance capacity. This is done by using the internally generated revenue of states as a proportion of their total revenue, which gives an overall average of 23.2 per cent. For the 1980s, this ratio stood at an average of 26.8 per cent, falling to an average of 18.1 per cent between 1990 and 1996. This demonstrates an increased dependence of the states on the federal government for their revenue because whatever revenue that is not generated in the state comes from the federal allocation.

Another interesting coefficient that can be used to measure the allocation and exploitation of tax power between the two lower tiers of government, and also to demonstrate fiscal independence of the states is the ratio of state internal revenue to the total federally collected revenue. The internal revenue capability of all the states compared to federal tax performance is very weak at an average of 7.2 per cent during the period under review. This performance index has never risen beyond the 13.0 per cent of 1983, though it fell to 2.7 and 2.9 per cent in 1992 and 1993. Between 1990 and 1996, the ratio did not rise above the 5.4 per cent recorded in 1994. At least two inferences can be drawn from this poor performance. One is that tax powers are concentrated in the federal government to the detriment of states.In other words, state governments are not given any strong fiscal incentive to generate revenue internally; they tend to rely on the federal government for their fiscal needs. Another conclusion is that internal capacity to raise revenue is never considered when creating states; hence, the higher the number of states created, the less their performance in internal revenue generation.

Table 2 shows the fiscal dependency ratio of individual states. In the table, five ratios are used to show the level of fiscal dependence of the states on the federal government. The magnitude of dependence becomes very clear when the ratio of internal revenue to recurrent expenditure is analysed. This simply measures the internal ability of the state to pay the cost of its daily administration (namely, workers salaries and wages, and overhead costs). Some states on the high dependence side like Yobe and Niger can only pay 5.4 and 6.5 per cent of their current costs from their internal revenue. In all the ratios, Lagos, Rivers, Delta, and Kaduna States, on the one hand, and Yobe, Niger, Jigawa and Kogi States on the other, are the best and worst performing states. Using internal revenue generation capability and other ratios, states in the southern part of the country are relatively more self-reliant than their northern counterparts. The picture would not be different for local government-state-federal fiscal relations. Ekpo and Ndebbio (1998) have demonstrated the high dependence of the local governments on the federal government. Consequently, since many federal policy makers come from states that have very

Table 2. States' Fiscal Dependency Ratios

STATE	1988 SA/ Totrev.	1990 SA/ Totrev.	1992 SA/ Totrev.	1993 SA/ Totrev.	1994 SA/ Totrev.	1995 SA/ Totrev.	1988 SA/ Totexp	1990 SA/ Totexp	1992 SA/ Totexp	1993 SA/ Totexp	1994 SA/ Totexp	1995 SA/ Totexp
Abia			0.543	0.691	0.677	0.695			0.440	0.711	0.675	0.612
Adamawa			0.934	0.936	0.815	0.818			0.888	0.578	0.501	0.582
Akwa Ibom	0.894	0.877	0.689	0.744	0.589	0.749	0.836	0.760	1.057	0.726	0.493	0.705
Anambra	0.720	0.734	0.548	0.686	0.570	0.611	0.663	0.879	0.626	0.645	0.468	0.274
Bauchi	0.884	0.850	0.873	0.864	0.589	0.653	0.765	0.813	0.531	0.748	0.402	0.649
Bendel	0.732	0.811					0.806	2.316				
Benue	1.588	0.975	0.940	0.951	0.799	0.591	1.771	0.927	0.579	1.462	0.752	0.591
Borno	0.920	0.874	0.770	0.932	0.738	0.847	0.960	0.889	0.754	0.645	0.764	1.016
Cross River	0.917	0.833	0.621	0.832	0.718	0.718	1.019	0.556	0.407	0.829	0.730	0.849
Delta			0.679	0.599	0.531	0.431			0.567	0.599	0.531	0.435
Edo			0.754	0.881	0.720	0.654			0.533	0.623	0.635	0.657
Enugu			0.872	0.642	0.677	0.651			1.337	0.290	0.426	0.490
Gongola	0.861	0.957					0.838	1.495				
Imo	0.752	0.770	0735	0.785	0.618	0.617	0.668	0.398	0.634	0.600	0.667	0.488
Jigawa			0.974	0.755	0.716	0.709			1.294	0.685	0.471	0.365
Kaduna	0.800	0.851	0.683	0.636	0.671	0.485	1.312	0.748	0.612	0.935	0.454	0.332
Kano	0.869	0.865	0.852	0.715	0.665	0.561	0.844	0.890	0.783	1.027	0.753	0.659
Katsina	0.962	0.924	0.964	0.906	0.795	0.789	0.930	1.554	1.202	0.657	1.148	1.035
Kebbi			0.839	0.818	0.772	0.648			0.587	0.741	0.727	0.529
Kogi			0.949	0.920	0.672	0.690			0.667	1.007	0.662	0.670
Kwara	0.851	0.899	0.837	0.560	0.326	0.741	0.768	0.979	0.397	1.022	0.614	0.771

Table 2. Contd. States' Fiscal Dependency Ratios

STATE	1988 SA/ Totrev.	1990 SA/ Totrev.	1992 SA/ Totrev.	1993 SA/ Totrev.	1994 SA/ Totrev.	1995 SA/ Totrev.	1988 SA/ Totexp	1990 SA/ Totexp	1992 SA/ Totexp	1993 SA/ Totexp	1994 SA/ Totexp	1995 SA/ Totexp
Lagos	0.421	0.463	0.450	0.334	0.223	0.189	0.394	0.769	0.485	0.314	0.221	0.214
Niger	0.919	0.889	0.941	0.972	0.850	0.831	0.558	0.723	0.482	0.585	0.951	1.039
Ogun	0.783	0.906	0.796	0.722	0.539	0.421	0.814	1.426	0.491	0.722	0.479	0.387
Ondo	0.593	0.849	0.902	0.785	0.411	0.488	0.855	0.957	0.523	0.698	0.504	0.467
Osun			0.831	0.609	0.652	0.609			0.970	0.708	0.674	0.715
Oyo	0.671	0.947	0.717	0.735	0.509	0.300	0.598	0.789	1.167	0.684	0.379	0.385
Plateau	0.895	0.745	0.854	0.776	0.655	0.581	0.758	0.487	0.620	0.610	0.334	0.441
River	0.839	0.913	0.703	0.566	0.418	0.328	0.757	1.490	1.038	0.539	0.407	0.516
Sokoto	0.973	0.876	0.783	0.819	0.758	0.778	0.743	0.963	0.755	1.314	1.234	0.766
Taraba			0.643	0.654	0.705	0.673			0.513	0.614	0.664	0.315
Yobe			0.641	0.545	0.524	0.560			0.532	0.555	0.559	0.534
F.C.T.			0.959	0.425	0.682	0.797			0.411	0.442	0.264	0.257

Note: SA = Statutory Allocation, Totrev = total Revenue, Totexp = Total Expenditure
Intrev = Internally Generated Revenue, Recexp = Recurrent Expenditure

Table 2. Contd. States' Fiscal Dependency Ratios

STATE	1988 Intrev/ Totrev.	1990 Intrev/ Totrev.	1992 Intrev/ Totrev.	1993 Intrev/ Totrev.	1994 Intrev/ Totrev.	1995 Intrev/ Totrev	1988 Intrev/ Recexp	1990 Intrev/ Recexp	1992 Intrev/ Recexp
Abia			0.127	0.154	0.145	0.179			0.179
Adamawa			0.066	0.064	0.066	0.072			0.108
Akwa Ibom	0.106	0.056	0.069	0.103	0.181	0.140	0.135	0.081	0.203
Anambra	0.219	0.266	0.113	0.196	0.229	0.201	0.301	0.442	0.166
Bauchi	0.116	0.046	0.059	0.063	0.116	0.108	0.145	0.057	0.070
Bendel	0.268	0.138					0.389	0.755	
Benue	0.090	0.025	0.041	0.049	0.088	0.109	0.163	0.031	0.037
Borno	0.080	0.043	0.230	0.068	0.139	0.066	0.121	0.063	0.250
Cross River	0.083	0.068	0.064	0.168	0.164	0.195	0.153	0.078	0.098
Delta			0.321	0.338	0.277	0.439			0.457
Edo			0.131	0.119	0.129	0.137			0.157
Enugu			0.128	0.234	0.191	0.262			0.970
Gongola	0.139	0.043					0.204	0.097	
Imo	0.248	0.230	0.109	0.155	0.230	0.257	0.290	0.132	0.150
Jigawa			0.024	0.021	0.083	0.088			0.070
Kaduna	0.200	0.114	0.289	0.240	0.196	0.382	0.918	0.131	0.325
Kano	0.131	0.120	0.142	0.087	0.118	0.209	0.181	0.156	0.154
Katsina	0.038	0.076	0.036	0.094	0.108	0.114	0.060	0.440	0.084
Kebbi			0.161	0.149	0.121	0.095			0.226
Kogi			0.051	0.080	0.081	0.132			0.077
Kwara	0.149	0.101	0.163	0.068	0.449	0.150	0.178	0.166	0.189

Table 2. Contd. States' Fiscal Dependency Ratios

STATE	1988 Intrev/ Totrev.	1990 Intrev/ Totrev.	1992 Intrev/ Totrev.	1993 Intrev/ Totrev.	1994 Intrev/ Totrev.	1995 Intrev/ Totrev.	1988 Intrev/ Recexp	1990 Intrev/ Recexp	1992 Intrev/ Recexp
Lagos	0.579	0.537	0.470	0.662	0.613	0.692	1.039	2.075	0.806
Niger	0.081	0.021	0.042	0.028	0.031	0.073	0.079	0.025	0.045
Ogun	0.217	0.094	0.132	0.159	0.183	0.232	0.354	0.260	0.151
Ondo	0.407	0.151	0.098	0.215	0.119	0.093	0.833	0.246	0.091
Osun			0.069	0.113	0.164	0.199			0.162
Oyo	0.563	0.053	0.283	0.180	0.278	0.099	0.807	0.065	0.843
Plateau	0.105	0.255	0.146	0.224	0.250	0.119	0.103	0.198	0.268
River	0.161	0.087	0.297	0.431	0.507	0.554	0.237	0.156	0.656
Sokoto	0.027	0.113	0.069	0.078	0.098	0.106	0.029	0.195	0.134
Taraba			0.250	0.171	0.151	0.202			0.497
Yobe			0.023	0.029	0.027	0.015			0.038
F.C.T.			0.041	0.017	0.131	0.160			0.036

Table 2. Contd. States' Fiscal Dependency Ratios

STATE	1993 Intrev/ Recexp	1994 Intrev/ Recexp	1995 Intrev/ Recexp	1988 Intrev/ Totexp	1990 Intrev/ Totexp	1992 Intrev/ Totexp	1993 Intrev/ Totexp	1994 Intrev/ Totexp	1995 Intrev/ Totexp
Abia	0.263	0.218	0.200			0.103	0.158	0.145	0.157
Adamawa	0.052	0.083	0.057			0.063	0.039	0.041	0.051
Akwa Ibom	0.145	0.225	0.183	0.099	0.048	0.106	0.101	0.152	0.132
Anambra	0.273	0.242	0.134	0.202	0.318	0.129	0.184	0.188	0.090
Bauchi	0.055	0.133	0.135	0.100	0.044	0.036	0.054	0.079	0.108
Bendel				0.295	0.395				
Benue	0.11	0.086	0.130	0.101	0.024	0.025	0.075	0.083	0.109
Borno	0.063	0.173	0.094	0.083	0.044	0.226	0.047	0.144	0.080
Cross River	0.232	0.234	0.866	0.092	0.045	0.042	0.167	0.166	0.230
Delta	0.463	0.279	0.644			0.268	0.338	0.278	0.443
Edo	0.098	0.125	0.154			0.093	0.084	0.133	0.137
Enugu	0.286	0.208	0.287			0.196	0.106	0.120	0.197
Gongola				0.135	0.066				
Imo	0.149	0.285	0.356	0.221	0.119	0.094	0.118	0.248	0.203
Jigawa	0.027	0.106	0.094			0.032	0.019	0.055	0.045
Kaduna	0.389	0.176	0.377	0.328	0.100	0.259	0.353	0.132	0.262
Kano	0.135	0.151	0.281	0.127	0.123	0.131	0.125	0.133	0.245
Katsina	0.104	0.207	0.209	0.037	0.128	0.045	0.068	0.157	0.150
Kebbi	0.258	0.168	0.115				0.135	0.114	0.078
Kogi	0.157	0.094	0.189				0.087	0.080	0.128
Kwara	0.184	1.304	0.210	0.135	0.111		0.124	0.846	0.155

Table 2. Contd. States' Fiscal Dependency Ratios

STATE	1993 Intrev/ Recexp	1994 Intrev/ Recexp	1995 Intrev/ Recexp	1988 Intrev/ Totexp	1990 Intrev/ Totexp	1992 Intrev/ Totexp	1993 Intrev/ Totexp	1994 Intrev/ Totexp	1995 Intrev/ Totexp
Lagos	0.927	0.886	1.036	0.540	0.893	0.507	0.622	0.609	0.785
Niger	0.028	0.095	0.117	0.049	0.017	0.022	0.017	0.035	0.091
Ogun	0.223	0.220	0.329	0.226	0.147	0.082	0.159	0.162	0.213
Ondo	0.223	0.243	0.154	0.588	0.171	0.057	0.191	0.146	0.089
Osun	0.193	0.223	0.301			0.081	0.131	0.169	0.234
Oyo	0.288	0.243	0.147	0.502	0.044	0.460	0.168	0.208	0.127
Plateau	0.269	0.199	0.156	0.089	0.167	0.106	0.176	0.128	0.091
River	0.420	0.516	1.574	0.146	0.143	0.438	0.411	0.494	0.872
Sokoto	0.238	0.245	0.134	0.021	0.124	0.066	0.125	0.160	0.105
Taraba	0.258	0.185	0.106			0.200	0.160	0.142	0.094
Yobe	0.084	0.069	0.024			0.019	0.030	0.029	0.014
F.C.T.	0.089	0.350	0.189			0.017	0.017	0.050	0.052

Source: Calculated using data from CBN *Annual Report and Statement of Account* (various issues)

Table 3. Relationship Between Revenue Allocation Formula and Fiscal Dependency

	1981		1984		1990		Jan. 1992		Jun. 1992–1997	
	Share in fed. rev. (%) (A)	Dependency ratio (B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
Fed. govt.	55	0.067[a] 0.314[b]	55	0.048[a] 0.251[b]	50	0.028a 0.182[b]	50	0.026[a] 0.138[b]	48.4	0.025[a] 0.238[b]
State govt.	30.5	0.739[c] 0.279[d]	32.5	0.734[c] 0.267[d]	30	0.82c 0.137[d]	25	0.75[c] 0.161[d]	24	0.583[c] 0.207[d]
Local govt.	10		10		15		20		20	
Special funds	4.5		2.5		5		5		7.5	
Total	100		100		100		100		100	

Notes:

(A) = Share in federally collected revenue

(B) = Dependency ratio; calculated as stated in notes *a* and *b* below

a Interval mean of (3)/(4) in Table 1 above, e.g., the value 0.048 for 1984 is derived as the sum of the ratios for 1984-1989 divided by 6.

b Interval mean of (2)/(3) in Table 1, calculated as explained in note *a*.

c Interval mean of (5)/(7) in Table 1 above, calculated as explained in the preceding note *a*.

d Interval mean of (6)/(7) in Table 1 above, calculated as described in note a.

Source: Values under (A) are reported in Anyanwu (1997: 190)

low internal revenue, the federal tax power has been continually reinforced and the federal revenue allocation formulas have been constantly modified to give strength to equality, population and development needs. The weak fiscal base of states cannot strengthen federalism; it can only activate discontentment and agitation for self-reliance from the richer states while the poorer ones continue to insist on acquisition of political power at the centre.

Using the ratio of states' statutory revenue to their total current revenue, it can be argued that the downward trend in their share of revenue from the federation account can reduce their fiscal dependence on the federal government. From Table 3, it is observed that between 1984 and 1997, when the revenue allocation to states began to reduce drastically, the magnitude of states' dependence on the federal government was reduced marginally on the average. In 1990, however, there was a spurious negative correlation between the fall in the ratio of allocation to the states from the federally collectable

revenue and the increase in dependency ratio for states. The conclusion that the fiscal dependence of states on federal government tends to improve with a reduction in their share of the federation account is also collaborated by the enhanced internal revenue generation capacity of states, given the downward trend in the ratio of federal revenue allocated to the states between 1984 and 1997. Again, there is an inconsistent relationship recorded between 1984 and 1990 when the allocation formula was reviewed downward from 32.5 to 30 per cent against the states, while the aggregate self-dependency ratio also reduced from 0.267 to 0.137. This may be attributed to various extrabudgetary grants given to the states by the federal government and the extravagant expenditure of the Babangida administration's aborted transition programme.

Attempts at explaining the impact of the downward review of the revenue allocation formula on the federal governments independent revenue sources and non-oil revenue performance suggest that the current revenue allocation formula does not influence the revenue drive of the federal government (see the federal government row in Table 3.) This is due to the federal governments reserved ability to adopt monetary policies, including sales of treasury bills and certificates, and issuing of fiduciary notes to finance its programmes. Evidently, the growth in budget deficits and money supply, and the rapid depreciation rate of the naira all explain the neutrality of the federal government in the revenue allocation formula.

4. Resource Potentials for Dependable Fiscal Base

In this section, the resource base of the economy is examined with the aim of generating a foundation on which fiscal potentials can be developed for the country. Thereafter, we consider some avenues through which the abundant fiscal potentials could be turned into actual government revenue to lessen the overdependence on the oil sector.

4.1 Resource endowment and fiscal potentials

The foundation for revenue base diversity depends on disparity in natural resource endowment (across land space) and human factor endowment in Nigeria. The tax base may be the commodities that either come directly from the land such as agricultural produce and minerals or from manufacturing processess. In all the cases, the land in any locality should be able to support the production of goods. The human input into the revenue base is probably the most important. Labour income and organizational profit also form essential tax bases. In all, human inputs such as skill, entrepreneurial ability and other innate qualities are very crucial to the formation and expansion of the tax base. These natural and human factors influence the volume of economic activities and, therefore, the tax base and proceeds from different areas.

The revenue potentials of Nigeria can be directly linked with the resources of the economy. The revenue potential is, thus, a reflection of the natural endowment of the country. Every resource indicates some revenue waiting to be tapped at the commencement of resource exploitation: unexploited resources in the lithosphere and biosphere cannot generate realizable revenue. It is important to explore these potentials so that plans could be made in the future to create a congenial environment to their exploitation and, hence, higher revenue generation.

The agricultural potential of Nigeria has been the most exploited land resource in the country, but at a small subsistent individual landowner level. Agriculture still accounts for about 32 per cent of the GDP and offers over 60 per cent of employment in Nigeria. These proportions of high employment and low GDP contribution only demonstrate the low modernization of the sector, and culminating in low output per head. The revenue from the sector will necessarily be low. The distribution of agricultural potential is fair as Nigerian soils are generally of high cultivable quality. The northern soil zone can produce various grains while the southern soils are good for production of tree and root crops. The middle belt yields a mixture of grains, tree and root crops. This classification is only a function of the relative rainfall, humidity, vegetation and available soil moisture. Although temperature is an important factor in crop production in Nigeria, it is not regarded as a crucial factor since it is not as much a constraint as availability of soil moisture. Indeed, the soil-type argument for zone demarcation is not so crucial compared to rainfall (Nwafor 1982).

The Niger Delta has a long rainy season which lasts about nine months. The major crops grown there are plantain, banana, maize, cocoyams, cassava and some species of yams. The northern and western parts of the Niger Delta are conducive for the production of beans, citrus fruits, cocoa, kolanut and various vegetables while the east is conducive for cultivating oil palms as its principal cash crop. The middle belt has surplus output of root crops especially yams, cassava and rice. As we move northward from the middle belt, the land becomes increasingly suited for creals production which replaces root crops. However, in the Bida, Kaduna and Jos zone, one can still find a fair mixture of roots and grains. As we move further towards the north, root crops do not thrive with ease, giving way to guinea corn, rice, millet and groundnut, among other savannah crops. These crops have shorter growing periods than the root

crops and are adaptable to the short raining season in the north. Animal rearing is a natural occupation in the northern region of Nigeria because of the huge expanse of grassland there and other favourable factors.

Nigeria is highly blessed with agricultural resources that can form rich revenue potentials for the government. Indeed, the diversity in spatial distribution of agricultural occupations and resources across the length and breadth of the country testify to the revenue potential of the country. Government at the federal, state and local levels can develop revenue sources, first, by encouraging expansion in the traditional occupations of the people in a particular area, and then, through investment stimulation in new areas by granting fiscal incentives for the development of new industries. There has been some neglect of traditional revenue base such as income tax on farm produce, fishing, animal husbandry, hunting, timber dealing and so on. These revenue sources can be harnessed through organized value assessment and collection of taxes on the incomes of people engaged in such occupations.

Again, for the tax sources of traditional occupations to be sustainable, government at the different levels should adopt policies to enhance profitable investment in these occupations. For instance, government should ensure that necessary infrastructure is provided in areas where there are high revenue potentials. Every community requires water, electricity and good roads to enhance their livelihood. Generally, the availability of these infrastructure is *sine qua non* for growth and modernization of the traditional sector. It is only through this that the abundant revenue potentials in the country can be realized.

The pattern of providing infrastructure in Nigeria often does not reflect any incentive to the potential revenue sources. In most cases, basic infrastructure is only provided after long periods of neglect and agitation. It is not uncommon for a community to be completely forgotten unless a public figure with an interest in the area brings his influence to bear. It is for this reason that the rural areas generally lack basic infrastructure – public figures do not live there.

It should be emphasized that the creation and maintenance of rural infrastructure will not only guarantee low business costs and rapid economic growth with attendant increased revenue generation opportunities, it will also reduce the costs of revenue collection. Moreover, it will ease accessibility to rural businesses by tax assessment agents, which will improve the tax records and returns. The problems of agricultural development in Nigeria have been poor planning and discontinuity in-between regimes, inadequate infrastructure in the rural sector and backward technology, leading to high costs of production. Idachaba's (1995) assessment shows overdependence on natural weather conditions for agricultural production, uncoordinated agricultural

Table 4. Summary of the Main Mineral Resources in Nigeria

Minerals	Major Area of Occurrences	Production Activities
1. *Fossil fuels*		
Petroleum oil and associated gas	Niger Delta area, offshore, Ondo, Imo States	Petroleum refining, petrochemical plants at Port Harcourt, Warri, Kaduna; gas plant at Bonny; Fertiliser plant at Onne; crude oil exploitation in Rivers, Delta, Akwa Ibom, etc.
Coal	Anambra, Enugu and Benue State	Coal mining in Enugu (at a lower scale now).
Lignite	Anambra, Imo and Delta State	
2. *Metallic Minerals*		
Tin	Jos Plateau, Zaria, Kano	Mining in Jos
Columbite	Jos Plateau	Mining in Jos
Cassiterite	Jos Plateau, Birnin Gwari	Mining in Jos
Tantalite	Jos Plateau	
Wolramite	Jos Plateau	
Molybdenite	Jos Plateau	
Lead and zinc	Abakaliki and Zurak	
Gold	Ilesha,, Minna, Sokoto	
Iron	Kwara, Kogi, Benue, Anambra and other areas	Iron ore mining-Itakpe, Steel Mills – Jos, Ajaokuta, Aladja, Oshogbo, Ikot Abasi, Katsina.
3. *Radioactive* Minerals		
Uranium	Jos Plateau and Sokoto	Mining in Jos
Monazite	Jos Plateau	
Thorite	Jos Plateau	
Zircon	Jos Plateau	
4. *Non-metallic* Minerals		
Limestone	In most states	Cement plants in Lagos, Gboko, Bauchi, Nkalagu, Okpella, Sokoto, and Calabar
Marble	Kwara, Edo, Benue, Niger, Oyo	Marble mining plant in Igbeti-Oyo State
Industrial rocks and gravel	In most states	Mining in most states for building and construction industries
Clay and shale	In most states	Mining in most states and used in ceramic industries
Kaolin	Rop near Jos, Nsu near Umuahia, Itu in Akwa Ibom,	Mined and utilized in paint industries
Feldspar	Abuja and Egbe in Kwara	

Sources: Nwajide Nwajide (1982), and updated with information in column 3 from CBN and FOS Publications.

support programmes such as in fertiliser distribution, and non-availability of supply management facilities for the preservation of excess stock. The situation is aggravated by the discontinuity in policy programmes that would have developed the rural sector of the economy on a sustainable basis; policy inconsistency and discontinuity have perpetuated rural underdevelopment in Nigeria.

The absence of special consideration for all possible sources in the revenue distribution and expenditure plans has been responsible for blatant tax evasion, low tax base, poor assessment efforts and slow pace of development of new taxes. The inadequate supply of socio-economic infrastructure to rural areas has also resulted in low returns on agricultural investment. The effect of this on the revenue position of the government is the paltry tax collection from the sector. This is an expected outcome from the low output, and lack of access to taxable agricultural businesses.

Nigeria is also very rich in mineral deposits though their exact volumes have not been ascertained. Table 4 shows the major minerals found in large quantities in Nigeria, their locations and the production activities where they are used. Output from the sector since 1970 shows that petroleum mining has continued to account for over 90 per cent of the total and sometimes rises as high as 98.9 per cent as was the case in 1995.

Even though there have been mining activities in Enugu coal mine, the Jos tin mine and the oil rig at Olobori near Port-Harcourt before 1970, mining only gained ascendancy as a major cash earner in the early 1970s with the impetus given to crude oil production by the oil price hike of 1973. The oil price increase also slowed down agricultural growth and expansion. Thus, the 1970s marked a change in the direction of trade and tax base. Government revenue began to flow mainly from oil-related sources – petroleum profit tax, oil royalty, NNPC sales profits and oil lifting licences. This shift to mineral trade was remarkably different from the shift to massive trade in agriculture.

Mining activities depend largely on the natural endowment of the land. The technology demands much more entrepreneurship and capital outlay than does agriculture. But most Nigerians lack the required technological know-how, thereby delaying their participation in the mining industry until 1992 when Summit Oil Company was incorporated as the only Nigerian oil company.

Low-level manufacturing activities (8.5 per cent of GDP for the period 1980 to 1996) in Nigeria has also been a major cause of low value-added to national revenue effort from all other sectors. This is because primary products both at home and abroad command lower prices and slower price increase. Both the absolute price and rate of price changes are factors to be considered in commodity tax base, and in taxes levied on the income of those who trade in the commodities.

The two commodities discussed – so far agricultural produce and minerals – have been influenced by the direction of world trade. The revenue situation of the government has primarily been a reflection of natural endowment. However, technological requirements and the direction of world trade are factors to note in considering the growth of the revenue base of states and the federal government.

The abundance of agricultural, mineral and energy potentials in Nigeria shows that the economy can be industrialized to any height. And with the spread of natural resources in every part of the country, it follows that neighbouring communities are veritable sites for industrial concerns. But for the required level of industrialization to take place, basic infrastructure like electricity, telecommunications and potable water, which every investor is forced to provide for now, has to be provided nationwide by government or the private sector. Industrialization will expand the tax base and increase the tax yield as more people will be involved in industrial production.

It can be argued that the federal government has not been innovative enough in revenue generation. It has relied mostly on the direction of trade and trade cycles to determine its source and level of revenue. But with the continuous reduction in crude oil prices in the last two decades, the revenue structure of the country has been tailored along internal capacity of the economy. This has been made possible by the structural adjustment programme (SAP). During SAP, there were various temporary levies and surplus revenue from foreign exchange and petroleum price deregulations. This resulted in the establishment of the foreign exchange surplus account and the Petroleum (Special) Trust Fund into which gains from the foreign exchange and petroleum fuel markets were poured. There are other sources of revenue such as education tax, highway tolls, etc., which were introduced during SAP to stem the shortfall in revenue due to the dwindling oil prices. However, apart from value added tax (VAT), which was introduced in 1994 and tariff harmonization which can be regarded as long-term tax arrangements, most levies and revenue sources during the economic depression and 16-year (1983 - 1999) transition period have been rather *ad hoc*. For instance, the government cannot continue to depend on revenue accruing from the removal of petroleum subsidies. If the oil sector is completely privatized this revenue source will dry up; likewise, an effective removal of government control from the foreign exchange market will also remove the unrealistic gains from foreign exchange trading.

It seems tenable that the effect of the Dutch Disease on the oil sector could no longer be restricted to the intersectoral growth relationship. Apparently, these effects are observed in fiscal impacts of the sectors. As demonstrated in Tables 1 and 2, the internal ability of states to sustain their expenditure is only a low average of 23 per cent. The federal government, on the other hand, can only pay 24 per cent of its expenditure annually from sources other than oil revenue. This vulnerable position means that other constitutional revenue opportunities are not tapped. Many companies never pay their income tax to the federal government internal revenue agency while personal income tax is mostly paid in the states by government employees and some large company employees. No effort is made to collect taxes from other sources because of the thinking that the cost of collection will be high; state government officials would rather wait for their allocation from the federal oil revenue!

4.2 Enhancing fiscal independence

Whichever way we analyse the fiscal dependency in Nigeria – whether we use revenue base or intergovernmental fiscal relations – we cannot avoid the conclusion that the revenue base is too dependent on oil earnings and that states and local governments are excessively dependent on the federal allocation for their finances. Among the reasons for this negative skew towards oil revenue inspite of other viable sources are as follows:

a. the reliance on a monocultual economic base is indicative of the low stage of the nation's development and the dearth of individuals with entrepreneurial skills. However, there has been rapid increase in the number and distribution of entrepreneurs in recent times;

b. there are serious crises in the infrastructural subsector in the country. This has led to high costs of doing business in Nigeria and the low level of production in the manufacturing sector;

c. there is also a high concentration and centralization of fiscal resources at the federal level. The effect of this concentration is that residents of the states and local governments are not encouraged by their respective governments to embark on investments as the fiscal gains from such activities will not remain in the local economy but transferred to the federation account or local government joint account for sharing at the federal level;

iv. internal revenue generation activities at the federal, state and local government levels are not intensified to realize higher tax returns from other sources. Many companies do not pay profit/income tax to the federal government and some individuals do not pay income tax to the states simply because the system makes it possible for them to avoid payment. In fact, the taxes collected in Nigeria are only those that are deductible from source.

The following are some of the measures that can be taken to improve the present precarious fiscal dependence:

a. there is a crucial need to use fiscal incentive and provision of infrastructure to encourage manufacturing activities since it has the highest linkage effects. In this way, the rich resource base of the economy will be exploited and the resulting income will be taxed. Thus, gradually, the revenue base would be expanded and economic activities diversified. Generally, every level of government should spend some proportion of its current revenue on projects that will give incentives to private investment in its area;
b. at the moment, there are very low incentives in the revenue allocation formula for any state to aspire to increase its internal revenue generation capability. The principles of revenue derivation and sharing of internal revenue should be rated higher than equality of states, population, and developmental needs. This will encourage the states to explore and exploit their internal revenue base to its limits. It will also strengthen the state fiscal power and reduce agitation and tension at the federal level;
c. since the federal government is interested in fiscal self-reliance of the states and local governments, tax powers should continually be devolved on the lower governments. For instance, it is good that the federal government used its resources to study and initiate VAT assessment and collection. Within the short time of its introduction VAT has posted very encouraging results on the national revenue structure. What remains is for the federal government to relinquish its control of its administration, collection and expenditure to the respective state governments. Since the tax base of VAT, like personal income tax, has sufficient spread across the states, the administration of the tax should be carried out by the states. The federal government should only regulate its administration to protect the people from double taxation. The states too should remit some small proportion of VAT proceeds to the federal government. This will strengthen the internal revenue capacity of the states and challenge the weaker states to give high investment incentives to encourage production and distribution activities in their domain.

5 Conclusion

Nigeria is richly blessed with diverse resources and the spatial differences in resource endowment can be a strong basis for diversification in revenue sources. At the moment, however, the position reveals a monolithic revenue base and weak state governments' internal capacity to sustain their fiscal plans. The fiscal relations as practised in Nigeria gives weak incentives to state governments to exploit internal sources of revenue, thereby resulting in unhealthy dependence on the federal government.

The way forward lies in giving fiscal incentives to other economic activities, especially manufacturing industries, and reviewing the federal revenue allocation principle to give higher incentives to internal revenue generation at the state level. This will diversify the fiscal base and reduce the dependence on the federation account. It is also in the interest of federalism and increased development of all units of government that there should be devolution of more tax powers on the lower levels of government.

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