THE NIGERIAN JOURNAL OF ECONOMIC AND SOCIAL STUDIES

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Vol 41, No. 2 July 1999

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NO. 2: JULY

[*PUBLISHED BY THE NIGERIAN ECONOMIC SOCIETY*]

A COMPARATIVE STUDY OF STATES' FISCAL DEPENDENCY AND IMBALANCE IN NIGERIA

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ABSTRACT

This paper examines the duality in economic development that exists among Nigerian states, using intergovernmental fiscal relations. There is a serious problem of mutual dependency existing between the federal and state governments. The federal government is the primary dependant in the fiscal relationship since it 'depends on state resources for its revenue'. The dependence of the federal government on the fiscal resources of the states, weakens the fiscal base of some states, thus inducing a secondary dependency in those states on federal revenue. The scale of fiscal dependency varies between states and between clusters of states demonstrating the existence of an imbalance. Nevertheless, most of the states across the country depend on federal statutory revenue for their fiscal financing. An uneven distribution of advantageous development factors and the early use of such factors by some states have nurtured this imbalance. The lack of incentive for internal revenue generation within the states, the availability of oil revenue, and the rapid proliferation of states and military command governments are some of the factors that have deepened the states' level of dependency and imbalance. The solution to the problem lies in minimizing or eliminating factors that have caused this imbalance; the states should promote private investment within their domain through the provision of basic infrastructures and other incentives.

JEL classification: H2, H3, H7

1. Introduction

THE essence of federalism anywhere it is practised is to contain the spatial and cultural differences existing among the component units of the federation. The creation of the federation of Nigeria was therefore directed at finding a constitutional solution to the socio-spatial dynamics in the distribution of our natural resources and human factors to engender development.

In 1914, the Northern and Southern Protectorates of Nigeria were amalgamated. The colonial powers, however, in recognition of the socio-cultural differences between the North and South used different approaches to consolidate Lugard's policy of 'indirect rule'. The search for a solution to accommodate the diversities within the spectrum of a unified and integrated Nigeria continued and in 1954, when the Lyttleton (federal) Constitution was promulgated, the then three regions had three separate constitutions. A fourth region was carved out of the existing three regions in 1962, with the creation of the Midwest Region. Since 1967, state creation has been a dynamic issue. With twelve states in 1967, nineteen in 1979, twenty-one in 1987, thirty in 1991, and thirty-six in 1996, the rapid increase in the number of states in Nigeria has been posing financial and basic administrative problems for the newer states. The individual capacity of each state to raise revenue has been constrained by weak administrative skills, and a low level of economic activities. Therefore, finding enough revenue to satisfy the development plans has proved difficult for quite a number of states and has also resulted in weakening the political and economic power of these states (Ayoade, 1997).

The ultimate implication of this situation on the fiscal position of the states is an increase in the demand for federal revenue to fund newly-created state secretariats and the various ministries and state development projects. The federal government controls the fiscal allocation to all the states (with the exception of Lagos and Rivers states). Apart from this obvious dependence of state governments on the federal government, spatial differences in resource distribution appear to have some effect on the relative weight of dependency.

There is a need, therefore, to carry out some comparative analysis of fiscal dependency among the states in order to identify the plausible reasons for these fiscal differences. The objective is to make recommendations on how fiscal dependency and imbalance can be minimized in the states.

2. Theoretical Issues and Inter-governmental Fiscal Relations

The concept of inter-governmental fiscal relations is an integral part of fiscal federalism. Inter-governmental fiscal relations is concerned with issues ranging from tax jurisdiction, to the allocation of revenue accruing to common accounts and component units of government within a federation. Understanding intergovernmental fiscal relations requires some knowledge of inter-governmental functions, the constitutional tax power of different tiers of government and the appropriation of revenue in the collective (federation) account.

Federalism is generally concerned with the decentralization of government functions from the central (federal) government to other component units of

government (ie, the states and the local governments). This naturally results in decentralization of the fiscal system, which is the idea embedded in fiscal federalism: that is, the existence within one country of different expenditure responsibilities and taxing powers among the different levels of government that constitute the federation (Okigbo, 1965). Fiscal federalism, therefore, is an all-embracing concept that explains the fiscal activities that take place within a federation. Inter-governmental fiscal relations, on the other hand, refers to the fiscal transactions and coordinating arrangements among the various tiers of government in a federation (Musgrave and Musgrave, 1989).

Inter-governmental fiscal relations concerns the balancing of fiscal responsibility with the revenue collection powers of the different levels of government within the federation. The allocation of responsibilities among the different units of government is normally handled by the constitution. In Nigeria, the list of responsibilities is stated in the constitution. Basically, there are three lists: the exclusive list of responsibilities, the concurrent list and the residual list. The exclusive list is comprised of responsibilities which are funded 'exclusively' by the federal government; the concurrent list consists of responsibilities shared by both the federal and state governments; and the residual list is the sole responsibility of the state. The residual list comprises those responsibilities that are not in the first two lists and are not assigned to the local governments.

Issues concerning functions and responsibilities, and the allocation of tax power to different tiers of government have been variously discussed in pedantic detail by Emenuga (1993), Mbanefoh (1993) and Anyanwu (1997) and will not be repeated here, except in relation to issues relevant to this paper. Apart from their discourse, a number of observations about the allocation of responsibilities and tax powers are pertinent. First, the distribution of responsibilities and tax powers usually takes into account the effects of such allocation on the general ease of system control and on policy interaction. That is why the local governments are responsible for rates and fees levied on people and activities at the grassroots level. Similarly, for economy of administration, almost all personal income taxes are levied by the state government. The federal government, because of its ability to ensure compliance, is vested with the power to collect company income tax.

Second, in allocating responsibilities and tax collection powers, there must be a balance between the principles of efficiency and equity among the tiers of government. Efficiency principles relate to the minimization of cost in the administration of tax/revenue collection by the different tiers of government, while equity demands an alignment of revenue powers with fiscal responsibilities (Mbanefoh, 1993, Anyanwu, 1997). In the real world, the issue of balancing responsibilities with tax power has to do with the balance between fiscal concentration and efficiency. There are usually some trade-offs between efficiency and equity in fiscal practices.

The federal government, by reason of age and experience may be more efficient at tax administration. The temptation is thus to concentrate fiscal powers in the federal government. The lower levels of government, however, have to begin from somewhere to attain fiscal efficiency and independence (Mbanefoh, 1993). In a developing country like Nigeria with various factors warranting inefficiency, it is only reasonable to magnify the need for fiscal independence without disparaging the esteem of efficiency.

Another issue within analysis of inter-governmental fiscal relations is revenue allocation among the different units of government. Revenue allocation denotes the consignment of revenue to the different sectors (horizontal allocation) and to different units of government (vertical allocation). Revenue allocation has been discussed extensively with respect to fiscal federalism in Nigeria. Some of the conclusions include: excessive fiscal concentration and control (over 70 per cent) at the federal level, due to the prolonged impact of military rule (Akpan, 1999). With respect to the horizontal allocation of revenue among states, the various criteria used are controversial, even among scholars in Nigeria. Revenue allocation is controversial because of the lack of general acceptance of the revenue allocation formulae which has been adopted in the country (Emenuga, 1993). Those states with a rich revenue base are insisting on an allocation formula based on derivation, those with a poor revenue base have insisted on using the principles of equity, population and land mass in the allocation (Mbanefoh, 1993). The allocation formulae is unacceptable to many Nigerians because of its exclusive reliance on political rather than efficiency factors (Anyanwu, 1997) as indices for revenue allocation. This has been the fundamental cause of the increasing dependency of the state and local governments on statutory allocation from the federal government. The proliferation of states has reduced the size and capacity of the new states and made them inherently weak and excessively dependent on fiscal subventions from the federal government. Ayoade (1997) is critical of the impact of state creation on political power and resource capability. He warns that the existence of numerous weak states are dangerous in that it erodes the influence which the states would have on checking federal government excesses.

3. Fiscal Dependency and Imbalance among States

3.1 State fiscal dependency and imbalance

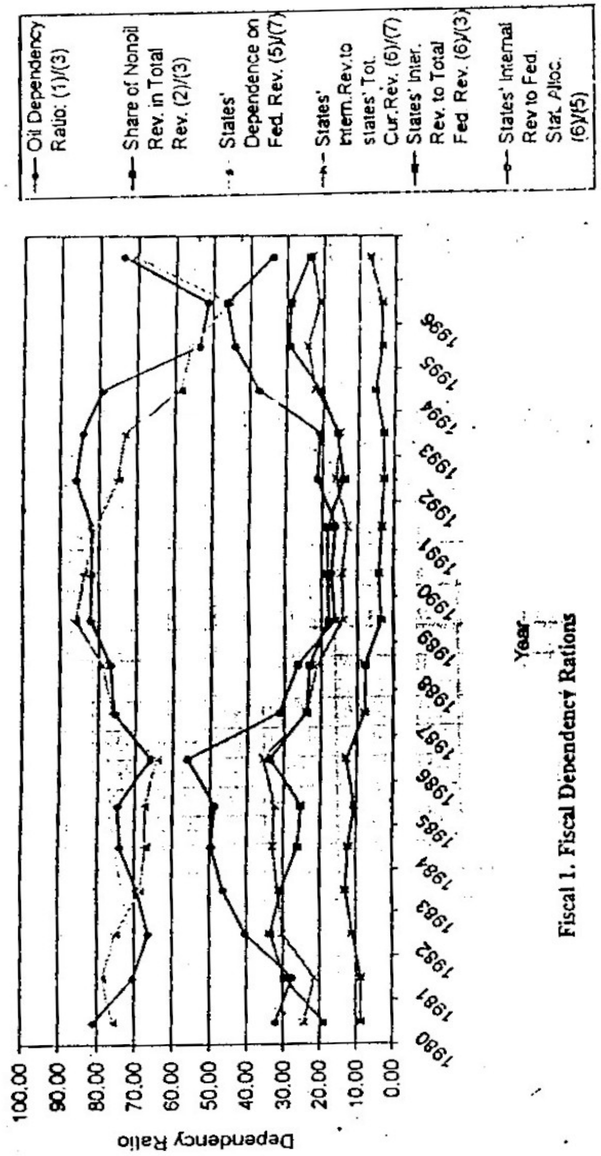
Fiscal relations between the states and the federal government are often described as a one-sided relationship, as the state governments derive over 70 per cent of their budgeted revenue from the federal government. Indeed, during the period 1970-1996, the entire economy depended massively on the oil sector (up to 73.7 per cent) for revenue to finance their fiscal plans (see table 1 and the figure 1).

The oil sector, or indeed any other sector, does not exist in a vacuum: oil wells are sunk in some states, just as industrial and corporate business activities exist in other states and these activities generate revenue primarily for the federal government.

Table 1. Inter-governmental and Sectoral Fiscal Dependency Ratios (revenue in ₦ million; ratios in %)

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988
Oil Revenue (1)	12353.8	8564.4	7814.9	7253	8269.	10915.1	3107.3	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.	10508.7	1119	14606.1	12302	25099.8	27310.9
Fed. Govt. Independent Revenue (4)	na	na	na	709	503.1	577.8	1364	1296.8	540.5
Federal Statutory Revenue to States	4128.6	3825.6	3245.7	2958.5	2799	3250.8	2843.8	6197.1	8181.3
States' Total Internally Generated	1327.7	1049	1315.8	1370.9	1381.	1584.1	1587.4	1954.5	2178.8
States' Total Current Revenue (7)	5456.3	4875	4335.4	4329.4	4180.	4844.9	4431.2	8151.6	10360.1
Oil Dependency Ratio: (1)/(3)	81.09	70.31	66.43	69.02	73.89	74.73	65.90	75.81	76.65
Share of Non Oil Rev. in Total Rev.	18.91	29.69	33.57	30.98	26.11	25.27	34.10	24.01	23.36
Ratio of Indep. Rev. to Total	na	na	na	6.75	4.50	3.96	11.09	5.17	1.98
States' Dependence on Fed. Rev.	75.67	78.47	74.87	68.34	66.96	67.30	64.18	76.02	78.97
States' Internal Rev. to States' Tot. Cur. Rev. (6)/(7)	24.33	21.52	30.35	31.66	33.04	32.70	35.82	23.98	21.03
States' Inter. Rev. to Total Fed. Rev (6)/(3)	8.72	8.61	11.18	13.05	12.34	10.85	12.90	7.79	7.98
States' Internal Rev to Fed. Stat. Allocation (6)/(5)	32.16	27.42	40.54	46.34	49.35	48.58	55.82	31.54	26.63
Year	1989	1990	1991	1992	1993	1994	1995	1996	Aver. over years
Oil Revenue (1)	41334.4	54713.2	82666.	164078.1	1621	160192.4	244902.3	266000	
Non-Oil Revenue (2)	8937.7	12182.2	18325.	26375.1	3066	41718.4	135439.7	151000	
Total Federally Collected Revenue (3)	50272.1	66895.4	100991	190453.2	1927	201910.8	459987.3	520190	
Fed. Govt. Independent Revenue (4)	938	1724	3040.4	4903.1	5626.	3888.2	20436.4	3407	
Federal Statutory Revenue to States	9899.8	15943.8	19434.	24497.3	2766	29006.8	38671.5	40619.1	
States' Total Internally Generated	1602.3	2726.2	3147.1	5244.7	5726.	10929.8	16992.9	18817.2	
States' Total Current Revenue (7)	11502.1	19116.5	24114.	32673.6	3774	49506.1	69541.6	88882.4	
Oil Dependency Ratio: (1)/(3)	82.22	81.79	81.85	86.15	84.09	79.34	53.24	51.14	73.74
Share of Non Oil Rev. in Total Rev.	17.78	18.21	18.15	13.85	15.91	20.66	29.44	29.03	24.06
Ratio of Indep. Rev. to Total	1.87	2.58	3.01	2.57	2.92	1.93	4.44	0.65	3.81
States' Dependence on Fed. Rev.	86.07	83.40	80.59	74.98	73.29	58.59	55.53	45.70	71.11
States' Internal Rev. to States' Tot.	13.93	14.26	13.05	16.05	15.17	22.08	24.40	21.17	23.21
States' Inter. Rev. to Total Fed. Rev.	3.19	4.08	3.12	2.75	2.97	5.41	3.59	3.62	7.19
States' Internal Rev to Fed. Stat. Allocation. (6)/(5)	16.19	17.10	16.19	21.41	20.70	37.68	43.94	46.33	33.99

Source: CBN, *Annual Report and Statement of Accounts* (various accounts).



Fiscal 1. Fiscal Dependency Rations

The fiscal wealth of the federal government is fundamentally dependent on the level of economic exploitation of crude oil in the oil-producing states. The dependency of the states, therefore, on the federal government's statutory allocation can be retraced and seen as indirect interstate resource dependency. This dependency is the result of the federal government's annexation and exploitation of state resources. Hence, the federal-state dependency ratio is equal to the ratio of the economy's dependency on oil revenue. It is important that the analysis of inter-governmental dependency be given a proper anchor on the federal dependence on states; that the ultimate effect of continuous creation of states in Nigeria by successive military governments has weakened the power of states in Nigeria and this situation should be analyzed in the context of inter-governmental fiscal relations.

The federal government is, in essence, the more dependent player in the fiscal relationship. This is demonstrated by calculating the ratio of the federal government's independent revenue to its total revenue. The ratio is calculated as independent revenue (4) over oil revenue (1) plus (4). The information in table 1 is adequate for the calculation; the summary of the behaviour of the ratio is as follows. This ratio (available from 1983-1996) has an average of 3.8 per cent but has declined to an all-time low of 0.7 per cent in 1996. This ratio shows that if the federal government relinquishes its control of company income tax and oil revenue with its associated fiscal gains to the states where the companies operate and where the oil is pumped, the federal fiscal strength would fall by more than 96 per cent. In other words, the federal government's internal revenue capacity can only generate a dismal 3.8 per cent of its current revenue needs. The federal government is even more dependent than some states in terms of ideal inter-governmental fiscal relations.

From table 1 and figure 1, it is clear that between 1980 and 1983, the majority of states were dependent on an allocation from the federal government for their revenue, such that the dependency ratio never fell below 64 per cent. Indeed, the fall in the ratio of statutory allocation to total current revenue for states between 1994 and 1996 does not mean that the ratio improved. This can be attributed to the exclusion of value added tax (VAT) allocation to the states from the statutory revenue. Since VAT is collectable and controlled by the federal government, the states dependency on the federation account for their fiscal financing has not reduced as much as one may read from table 1 and figure 1.

The graph, however, reveals a trend of responses of all the ratios to oil revenue. This is indicative of the oil sector as the driving force of the economy. The most problematic of these lacklustre relationships is the ratio of the states' internal to revenue total revenue, which portrays a negative relationship with oil revenue. This means that oil revenue and therefore statutory revenue does not help the states expand their domestic revenue base. In reality one of the factors that weaken the internal revenue position of the states is statutory revenue to the states. An increase in the federal statutory revenue to the states creates a disincentive to internal revenue sourcing, hence, the negative impact of statutory allocation on internally generated revenue. It should be noted that the rise in the ratio of the states' internal revenue to their statutory allocations was brought about by sluggish increases in statutory allocations, which engendered faster growth in internal revenue (see rows marked (5) and (6) and the ratio (6)/(5) in table 1).

Another ratio (see table 1 and figure 1) worthy of comment is the states' internal revenue to total federally collected revenue. The ratio assumes the lowest values in comparison to other ratios. In a normal situation this ratio can even take on values greater than a unit, which demonstrates that the internal revenue of all states put together may be greater than the federally collected revenue. In Nigeria, however, the ratio is generally below 13 per cent. One of its lowest scores (2.8 per cent) was recorded in 1992, and throughout the 1990s it has never risen above 5.4 per cent. This ratio can be used to measure revenue generation capacity and realized tax power (as opposed to approved or proposed tax power) between the states and the federal government. If the states can only raise an average of 7.2 per cent internally, compared to the total revenue that the federal government collected between 1980 and 1996, then, the states' dependency on the federal government and the precariousness of this situation in the event of failure of the federal source of revenue should be given more serious attention. Moreover, the federal government has one major, but crises-ridden source of revenue: oil.

A state-by-state analysis of the dependency situation is presented in table 2 and the values are extracted to bring closer the comparison of these ratios among states. In all, five ratios are calculated for all the states in order to use these factors to evaluate fiscal dependency among the states. Using internal revenue to recurrent expenditure as a measure of a state's internal fiscal capacity to sustain itself, it is noted that only Lagos and Rivers states have the capacity to pay their administrative costs from their internal revenue efforts. All other states are too weak to offset their wages/salaries and overhead costs. Yobe, Jigawa and Niger are the worst performing states with scores generally below 1.0 (one) per cent.

The dependence of the states on the federal government is to a good extent captured by the ratios of statutory revenue to: (1) states' total revenue and (2) states' total expenditure. Since the statutory revenue in 1993 to 1995 excluded grants and VAT allocations, one has to be a little apprehensive of the low values recorded for some fiscally weak states. It is, however, helpful to take in all ratios before drawing a conclusion and to note any part of the expenditure plan of the states that is not met from internal sources is paid by the federal government either through statutory allocation or with grants. Using these ratios, there is no need to overexpose the high dependency of the states; it is curious to note, however, that some states have received statutory allocation from the federal account which exceeds their expenditure for a fiscal year. This is captured by a ratio of statutory allocation to total expenditure which is greater than unity (or over 100 per cent) eg. the ratio for Katsina, and River states among others. This is clearly due to over-emphasis on equality rather than developmental needs and absorptive capacity in the allocation of revenue among the states in Nigeria.

Two clusters of states are formed for both northern and southern Nigeria to enhance a closer evaluation of the problem of fiscal dependency. The selection of states was based on completeness of data, generation (age), and observed trends (stability) of performance in all the ratios used. A state's dependency is demonstrated using the ratio of statutory allocation to states total expenditure. This is shown for the two clusters (see figures 2 and 3). Internal revenue performance or internal fiscal strength is depicted using the ratio of internal revenue to recurrent expenditure. This is shown in figures 4 and 5 for the two clusters.

Generally, the cluster of states in the North has a higher dependency ratio than those in the South. There is a picture of imbalance between the two clusters. Within each cluster there is also some imbalance. This imbalance can be explained in terms of access to some economic and development advantages such as being an industrialized, commercial, or political administrative area. When these advantages exist, the state so endowed has greater fiscal independence than those that do not have such advantages. This explains why the cluster from the South has a higher ratio, and the good performance of Kaduna and Kano in the North. Having noted a negative relationship between statutory allocation and internal revenue capacity, it is logical to argue that any state with a higher dependency on statutory revenue tends to neglect its internal revenue sources and this will deepen the imbalance between states and between clusters of states.

3.2 Bases for fiscal dependency and imbalance

One of the basic problems in the deepening dependency of states on the federal government for fiscal finance, lies in the negative relationship between oil revenue and internal revenue generation. As long as this relationship is not reversed, an increase in federal government allocation to states will only result in internal fiscal weakness and increased dependence of the states on the federally allocated revenue. This is so because the revenue allocation formulae adopted in Nigeria does not give any incentive to internal revenue generation efficiency and self-reliance among states in fiscal matters.

Table 2. States' Fiscal Dependency Ratios (%)

	1988	1990	1992	1993	1994	1995	1988	1990	1992
	SAI Tot Rev.	SAI To t Rev	SAI Tot Rev.	SAI Tot Rev.	SAI Tot Rev	SAI Tot Rev.	SAI Tot Exp	SAI Tot Exp	SAI Tot Exp
Abia	89.37	87.68	54.33	69.14	67.67	69.53	83.61	75.99	44.01
Adamawa	72.00	73.44	93.36	93.61	81.52	81.84	66.33	87.92	89.78
Akwa Ibom	88.44	85.01	68.91	74.42	58.94	74.90	76.48	91.29	105.71
Anambra			54.75	88.62	56.97	81.14			62.60
Bauchi			87.33	88.40	58.92	85.28			53.11
Benue	158.82	97.47	94.00	95.10	79.04	59.09	177.12	92.74	57.88
Borno	92.04	87.41	78.96	93.17	73.79	84.67	96.03	89.87	75.43
Cross River	91.71	81.20	82.06	83.74	71.77	71.77	101.93	55.57	40.73
Delta			87.91	90.97	51.06	43.09			56.73
Edo			75.36	86.10	72.01	65.43			53.25
Enugu	75.17	74.97	87.23	84.16	87.72	65.00	66.81	39.79	133.72
Imo	80.00	85.11	73.51	78.53	61.83	81.67	131.23	74.81	63.43
Jigawa	86.93	86.55	97.43	75.48	71.61	70.46	84.39	88.99	129.37
Kaduna			68.33	63.69	87.13	48.47			61.24
Kano			85.25	71.53	86.50	56.14			78.33
Katsina	96.18	92.41	96.39	90.60	79.47	78.88	93.03	155.38	120.24
Kebbi			83.91	81.79	77.24	84.78			58.72
Kogi			94.94	92.05	87.20	68.04			66.70
Kwara	85.05	89.66	83.66	56.04	32.62	74.12	76.76	87.90	39.70
Lagos	42.14	46.27	44.96	33.39	22.26	18.91	38.36	76.93	48.47
Niger	81.85	88.91	94.10	97.19	84.97	83.11	55.78	72.32	48.19
Ogun	76.30	90.64	79.56	72.18	53.91	42.07	81.38	142.56	49.12
Ondo	59.26	84.87	90.16	78.50	41.14	48.86	85.49	95.71	52.28
Osun			83.11	60.91	65.23	80.89			87.04
Oyo	67.12	94.67	71.71	73.55	50.66	30.02	58.83	76.93	116.71
Plateau	69.49	74.51	85.39	77.63	65.45	58.13	75.80	48.71	61.99
River	83.87	91.27	70.34	56.57	41.78	32.79	75.74	148.03	103.77
Sokoto	97.29	87.64	78.35	81.91	75.75	77.80	74.32	96.33	75.46
Taraba			64.27	65.39	70.53	67.31			51.28
Yobe			64.15	54.49	52.43	56.01			53.21
F.C.T.			95.93	42.54	68.22	79.72			41.10

Table 2 continued **States' Fiscal Dependency Ratios (%)**

	1993	1994	1995	1988	1990	1992	1993	1994	1995
	SAI Tot Exp	SAI Tot Exp	SAI Tot Exp	Int Rev/ Tot Rev	Int Rev/ Tot Rev	Int Rev/ Tot Rev	Int Rev/ Tot Rev	Int Rev/ Tot Rev	Int Rev/ Tot Rev
Abia	71.14	67.51	61.15	10.63	5.59	12.75	15.40	14.49	17.87
Adamawa	57.84	50.06	58.23	21.93	26.56	6.64	6.39	6.65	7.16
Akwa Ibom	72.60	49.32	70.46	11.56	4.61	6.90	10.31	18.11	13.99
Anambra	64.46	46.75	27.39			11.31	19.60	22.88	20.08
Bauchi	74.80	40.18	64.95			5.85	6.28	11.62	10.81
Benue	146.15	75.23	59.09	9.05	2.53	4.13	4.90	8.79	10.86
Borno	64.55	76.44	101.64	7.96	4.29	23.04	6.78	13.94	6.65
Cross River	82.93	72.98	84.89	8.29	6.77	6.45	16.76	16.37	19.45
Delta	59.92	53.09	43.48			32.09	33.75	27.74	43.89
Edo	62.32	63.46	65.72			13.11	11.90	12.87	13.65
Enugu	29.00	42.56	48.97	24.83	23.03	12.77	23.35	19.06	26.24
Imo	59.97	66.68	48.78	20.00	11.40	10.88	15.46	22.96	25.66
Jigawa	68.47	47.11	36.54	13.07	11.99	2.37	2.08	8.33	8.80
Kaduna	93.49	45.43	33.20			28.93	24.00	19.57	38.23
Kano	102.71	75.26	65.87			14.23	8.70	11.80	20.87
Katsina	65.72	114.81	103.45	3.82	7.59	3.61	9.40	10.83	11.44
Kebbi	74.08	72.70	52.92			16.09	14.95	12.10	9.51
Kogi	100.73	66.23	67.00			5.06	7.95	8.07	13.21
Kwara	102.19	61.40	77.07	14.95	10.14	16.34	6.79	44.93	14.95
Lagos	31.35	22.10	21.44	57.66	53.73	47.00	66.24	61.32	69.21
Niger	58.48	95.14	103.87	8.15	2.05	4.22	2.81	3.13	7.29
Ogun	72.25	47.88	38.66	21.70	9.36	13.24	15.93	18.29	23.20
Ondo	69.79	60.39	46.69	40.74	15.13	9.82	21.50	11.95	9.33
Osun	70.82	67.39	71.54			6.92	11.30	18.36	19.88
Oyo	68.42	37.93	38.49	56.33	5.33	28.29	18.03	27.83	9.89
Plateau	61.01	33.45	44.09	10.51	25.49	14.61	22.37	24.99	11.95
River	53.89	40.71	51.63	18.13	8.73	29.66	43.13	50.74	55.37
Sokoto	131.42	123.39	76.61	2.71	11.30	8.88	7.78	9.80	10.62
Taraba	61.39	68.38	31.48			25.05	17.08	15.12	20.19
Yobe	55.50	55.94	53.44			2.25	2.90	2.74	1.49
F.C.T.	44.18	26.39	25.72			4.07	1.67	13.05	16.02

Table 2 continued States' Fiscal Dependency Ratios (%)

	1988	1990	1992	1993	1994	1995	1988	1990	1992	1993	1994	1995
	Int Rev/ Rec Exp	Int Rev/ Rec Exp	Int Rev/ Rec Exp	Int Rev/ Rec Exp	Int Rev/ Rec Exp	Int Rev/ Rec Exp	Int Rev/ Tot Exp	Int Rev/ Tot Exp	Int Rev/ Tot Exp	Int Rev/ Tot Exp	Int Rev/ Tot Exp	Int Rev/ Tot Exp
Abia	[illegible]	8.08	17.87	28.34	21.85	20.01	9.95	[illegible]	10.32	15.84	14.46	15.72
Adamawa	80.17	44.18	10.41	9.17	8.33	5.68	20.20	31.79	6.31	3.95	4.08	5.10
Akwa Ibom	14.91	9.71	20.30	14.51	22.63	18.28	10.00	[illegible]	10.59	10.06	15.15	13.16
Anambra			18.47	27.79	24.20	13.40			12.93	18.41	18.78	8.39
Bauchi			8.98	9.55	13.28	13.47			3.56	5.43	7.93	10.76
Benue	18.78	3.05	3.71	11.11	8.63	13.01	10.09	[illegible]	2.55	7.53	8.27	10.35
Borno	17.08	6.31	24.97	6.30	17.31	9.38	8.31	[illegible]	22.58	-4.70	14.44	7.99
Cross River	19.78	7.85	9.51	23.16	23.43	86.55	9.21	[illegible]	4.23	16.70	16.65	23.01
Delta			45.68	46.30	37.87	66.43			26.81	33.76	27.76	44.29
Edo			15.69	9.82	12.52	15.41			9.26	8.42	11.34	13.71
Enugu	70.01	13.20	96.99	28.60	20.80	28.73	22.07	11.50	19.57	10.55	11.98	19.74
Imo	91.80	13.11	15.03	14.93	28.46	35.57	32.81	10.22	9.39	11.81	24.77	20.30
Jigawa	18.11	15.58	7.05	2.70	10.57	9.37	12.68	12.32	3.15	1.88	5.48	4.54
Kaduna			32.54	38.91	17.41	37.72			25.93	35.29	13.24	26.19
Kano			15.35	13.46	15.09	28.06			13.08	12.49	13.35	24.48
Katsina	5.96	44.04	8.37	10.43	20.71	20.87	3.69	12.77	4.50	6.82	15.65	15.01
Kebbi	17.77	16.61	22.63	25.79	16.76	11.53	13.49	11.05	11.26	13.54	11.39	7.77
Kogi	103.89	207.52	7.72	15.72	9.43	18.88	54.04	89.34	3.55	8.70	7.95	12.82
Kwara			18.88	18.39	130.41	21.04			7.75	12.39	84.57	15.55
Lagos			80.58	92.67	88.59	103.55			50.87	62.19	60.87	78.48
Niger	7.92	2.47	4.49	2.77	8.55	11.69	4.95	1.87	2.16	1.69	3.50	9.12
Ogun	35.41	26.03	15.13	22.28	22.02	32.87	22.55	14.71	8.17	15.94	16.24	21.34
Ondo	83.34	24.56	9.10	22.29	24.31	15.45	58.78	17.06	5.69	19.11	14.63	8.92
Osun	80.69	8.51	16.20	19.25	22.35	30.12	50.22	4.45	8.08	13.14	16.90	23.36
Oyo			84.26	28.84	24.28	14.87			46.03	16.77	20.76	12.68
Plateau	10.33	19.77	26.76	26.88	19.86	15.57	8.90	16.66	10.60	17.58	12.77	9.06
River	23.71	15.55	65.63	42.03	51.61	157.44	14.57	14.26	43.76	41.08	49.43	87.17
Sokoto	2.92	19.52	13.37	23.79	24.49	13.43	2.07	12.42	6.83	12.48	15.96	10.45
Taraba			49.85	25.83	18.54	10.58			19.98	16.04	14.23	9.45
Yobe			3.79	8.37	6.87	2.42			1.87	2.95	2.93	1.42
F.C.T.			3.64	8.94	34.97	18.90			1.74	1.73	5.05	5.17

Source: Computed with data from: CBN *Annual Report and Statement of Accounts*, (various issues).

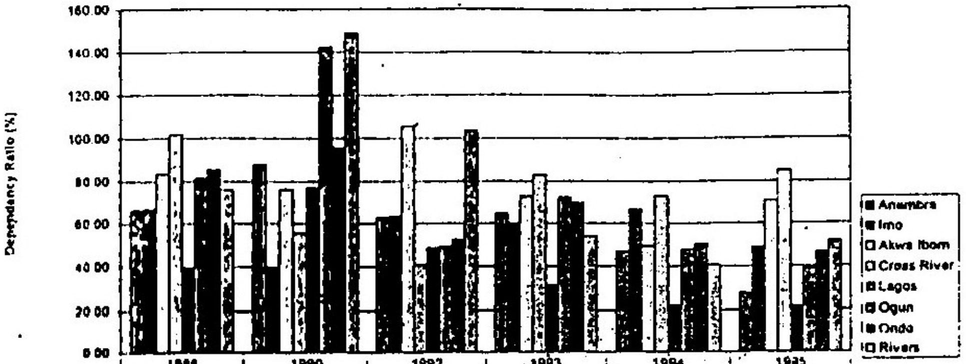
The proliferation of states combined with the command structure introduced and nurtured by successive military administrations have in their own way drastically reduced the states' internal fiscal capabilities. Although the state governors/administrators, being subordinate in rank and military hierarchy are duty-bound to carry out the directives of the Head of State, the adherence and subjection of state bureaucrats and others could be ensured with high fiscal concentration at the centre. Fiscal dependency has thus been entrenched by the military governments to enhance the command of their regimented government and compel adherence of these weak states to their directives and dictates, since only a strong economic base at the state level (in particular fiscal) can generate the

political will required to check the excesses of the federal government. This is the balancing process in federalism. The continued dependence of states on the federal government is unfortunately one of the most expedient means of uninterrupted military dictatorship. The presence of the military and the weakening of the states through fiscal dependency are an aberration to the effectiveness of federalism, which preaches decentralization and democracy that borders on self-determination and self-reliance.

The near absence of fiscal incentives to self-dependence among states and the unleashing of a military dictatorship are not the only factors that have threatened the fiscal strength of the states. The dependence on one tradeable sector as a major source of revenue has affected internal revenue capacity in Nigeria in some dimensions. Firstly, the growth of the oil sector, as Oyejide (1987) observes, has brought to effect the operation of the Dutch disease, which reduces the productivity of other sectors through reduction of the relative profitability position of other occupations. The result is always mass disinvestment from other sectors with the consequence of decreasing output. Effectively, therefore, oil exploitation and trade have weakened other sectors. This has resulted in poor tax returns from these sectors. The domestic revenue drive in the states has thus been besieged by the ratchet effect of the Dutch disease.

Secondly, as long as there is no serious need for additional revenue from other sources, states are not likely to be venturesome in the search for internal revenue. The sufficiency of the federal statutory allocation from oil revenue is demonstrated in the superfluity of federal government allocation to some states, which cannot be exhausted within the fiscal year. That is the information conveyed by the ratios of statutory allocation to total expenditure are greater than one (or more than 100 per cent). Since the absorption capacity of those states cannot utilize all the oil revenue allocated to them within one fiscal year, why waste resources to generate internal revenue? The incidence of limited absorption capacity is more preponderant in the northern states' cluster than it is in the south. The effect of wasteful funding of some states is that they will not be stimulated to source for revenue internally. This unconcerned attitude to domestic derivation of revenue also impacts negatively on the appropriation of public funds in the states.

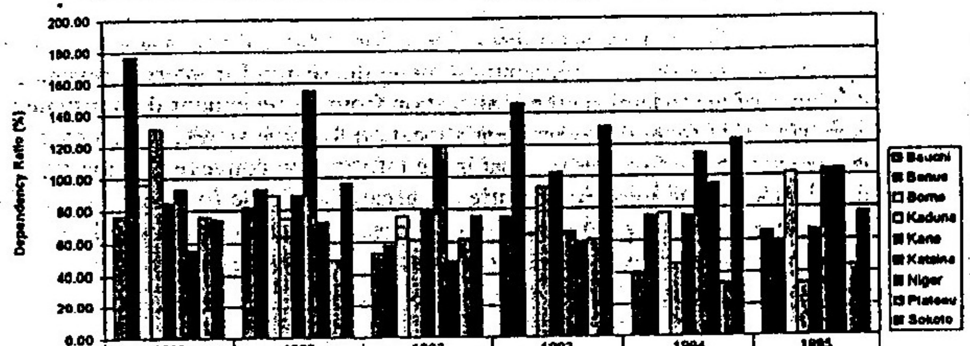
Another important issue with respect to fiscal dependence among states is that the ability to administer tax successfully is a function of political will power and administrative expertise. These valuable factors which would account for efficiency in states' internal tax administration are disparaged by continuous degradation in state creation exercises. It should also be pointed out that economic activities take place within land space. With the reduction in land space of states attending the rapid creation of states (from 12 in 1967 to 36 states in 1996), economic activities within each state have been reduced. This would result in the reduction of the tax base of the state. Furthermore the technical expertise



	1988	1990	1992	1993	1994	1995
Anambra	66.33	87.92	62.60	64.46	46.75	27.39
Imo	66.81	39.79	63.43	59.97	66.68	46.76
Akwa Ibom	83.61	75.99	105.71	72.60	49.32	70.46
Cross River	101.93	55.57	40.73	82.93	72.98	84.69
Lagos	39.35	76.93	48.47	31.35	22.10	21.44
Ogun	81.36	142.56	49.12	72.25	47.63	38.56
Ondo	85.49	95.71	52.28	69.79	50.39	46.69
Rivers	75.74	149.03	103.77	53.69	40.71	51.63

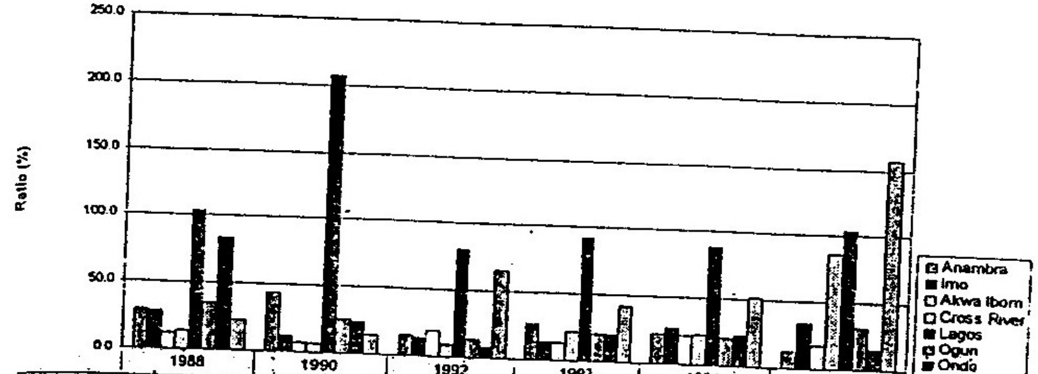
Note: To ease the reading of the chart, the data for each state per year follow from left to right, e.g., in 1988 the first bar stands for 66.33% of Anambra followed by the bar for Imo (66.81%), then, Akwa Ibom is represented in the next bar with 83.61%, etc. This applies to other columns and other charts following this one

Figure 2. Statutory Allocations/States' Total Expenditure (selected states)



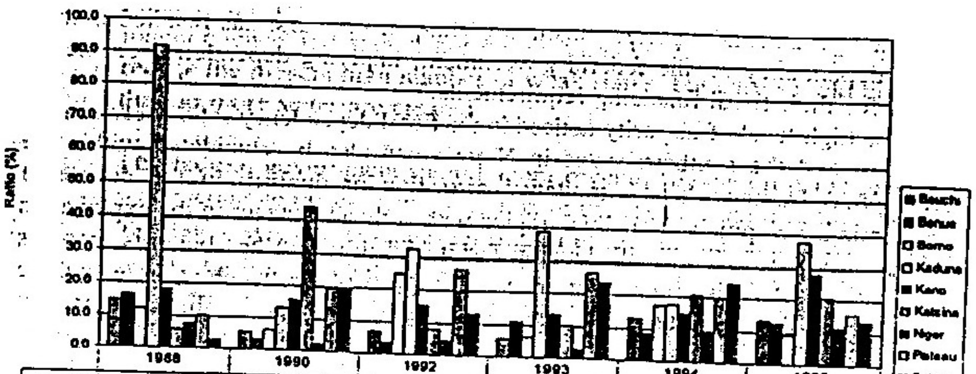
	1988	1990	1992	1993	1994	1995
Bauchi	76.46	81.29	53.11	74.80	40.18	64.95
Benue	177.12	92.74	57.88	146.15	75.23	59.09
Borno	96.03	88.87	75.43	84.55	78.44	101.84
Kaduna	131.23	74.81	61.24	93.49	45.43	33.20
Kano	84.39	88.99	78.33	102.71	75.26	65.87
Katsina	93.03	155.38	120.24	65.72	114.81	103.45
Niger	55.76	72.32	48.19	68.46	85.14	103.87
Plateau	75.60	48.71	61.99	61.01	33.45	44.09
Sokoto	74.32	86.33	75.46	131.42	123.39	78.81

Figure 3. Statutory Allocations/States' Total Expenditure (selected states)



	1988	1990	1992	1993	1994	1995
Anambra	30.1	44.2	16.6	27.3	24.2	13.4
Imo	29.0	13.2	15.0	14.9	28.5	35.6
Akwa Ibom	13.5	8.1	20.3	14.5	22.5	18.3
Cross River	15.3	7.6	9.6	23.2	23.4	86.6
Lagos	103.9	207.5	80.6	92.7	68.6	103.6
Ogun	35.4	26.0	15.1	22.3	22.0	32.9
Ondo	83.3	24.6	9.1	22.3	24.3	15.4
River	23.7	15.6	65.6	42.0	51.6	157.4

Figure 4. States' Internal Revenue/Recurrent Expenditure (selected states)



	1988	1990	1992	1993	1994	1995
Bauchi	14.5	5.7	7.0	5.5	13.3	13.5
Benue	16.3	3.1	3.7	11.1	8.6	13.0
Borno	12.1	6.3	25.0	6.3	17.3	9.4
Kaduna	91.8	13.1	32.5	38.9	17.4	37.7
Kano	18.1	15.6	15.4	13.5	15.1	26.1
Katsina	6.0	44.0	8.4	10.4	20.7	20.9
Niger	7.9	2.5	4.5	2.8	9.5	11.7
Plateau	10.3	19.8	26.8	26.9	19.9	15.6
Sokoto	2.9	19.5	13.4	23.8	24.5	13.4

Figure 5. States' Internal Revenue / Recurrent Expenditure (selected states)

required for efficient tax administration has been fragmented by the proliferation of states. This makes tax planning and administration in the new states a herculean task. The effect is the increasing dependence of these weak states on the federal government for their fiscal needs.

The observed disparity in the magnitude of dependency, and the imbalance among states can be explained using the spatial distribution of natural resources and economic activities among states. The main activity that drives the country's economy is the oil industry, whose spread of linkage effects is concentrated in southern Nigeria. A large part of Nigerian crude oil is exported directly without any processing. An average of 89.45 per cent of crude petroleum products has been exported between 1970 and 1995. Although the export share has been falling with the opening of refineries (from an average of 96.3 in 1970s to 85.9 in the 1980s and 83.9 per cent between 1990 and 1995), yet the sector still has marginal linkage effects with other sectors. That is why the direct linkage in fiscal impact of the sector cannot be felt in areas other than those states in which the oil mining and shipment take place.

Furthermore, part of the spillover of Dutch disease is that economic activities (mainly agriculture) in the non-oil producing states in the hinterland have been neglected. Disinvestment from those sectors, due to the growth in the oil trade and the ease of financing imported substitutes with petro-dollars, has resulted in their fiscal dependency on the federal government, implying dependence on the oil sector for their fiscal financing requirements.

The high level of disparity noticed in the fiscal dependency ratios between the northern and the southern states in Nigeria can also be elucidated within the conceptual framework of cumulative causation or dualism in the course of economic development. Usually a region with early advantages in the exploitation of its natural resources will develop faster and draw further benefits from its associations. As this process continues, all aspects of the two economies will be affected and the disparities will continue to deepen. In Nigeria, the southern part has had some early natural advantages in its development process over its northern counterpart.

The list of such advantages include the seaports for trading activities; and trade supporting activities such as banking, insurance and transportation, political headquarters in Lagos up to 1992; discovery and drilling of oil in the Niger Delta region; and early acceptance of Western education with the establishment of secondary schools and later, the University College, Ibadan. All these and other factors such as the provision of modern infrastructures have enhanced the rapid growth of manufacturing, commerce, transportation and construction firms in the southern states. The effect of this growth is that it draws more investable capital to the South than it does to the North. Since personal income tax is payable to the states of residence, it follows that southern states with greater working populations

will get more tax revenue. This explanation also applies to some states in the North with similar advantages. Examples are Kano and Kaduna.

4. Ways of Increasing Fiscal Independence

In the preceding section, after highlighting the level of dependency and imbalance among states, some of the possible causes of the problem were discussed. Some of the things that could be done to increase independence and reduce the imbalance among states are suggested here.

i. Democratic process and principles are necessary and imperative for the development of a self-dependent and strong fiscal base among states. The political class should resist the military from coming into power since its command structure will not allow for self-determination among states. The military personnel, by nature of their training and leadership orientation, believe in domination and dictatorship. The ethos of military command is exclusively at variance with decentralization and the principles of federalism.

ii. Much as the creation of states might have some development-accelerating impact, the rapid multiplication of states is disadvantageous to fiscal independence and should not be encouraged. Nothing can be done to reduce the present high number of weak states, but care should be taken that no more states are created.

iii. The federal government should adopt revenue allocation principles that will encourage the efficient utilization of the revenue opportunities within the states. Internal revenue generation efforts of the state governments should be used as one of the bases of revenue allocation. The internal absorption capacity of each state should be taken into account before allocating revenue. The federal government should neither undertake to finance the entire expenditure programme of the individual states, or allocate funds in excess to what they require.

iv. State governments should initiate incentive programmes that will boost investment in their states. Infrastructural investments by government are one way by which any state can attract investors and so enhance revenue generation opportunities. Except where indivisibility of capital and other problems exist, government direct investment in pure economic activities should be discouraged. Government managed enterprises have mainly resulted in dead-weight losses to the economy. Government should invest in 'pure' public goods such as roads, the maintenance of justice and peace, and the provision of socio-economic infrastructures.

v. The federal government should consciously reduce its tax power and hand over to the states. It is believed that if VAT administration is handled at the state level, more states will become fiscally less dependent on the federal government and on oil revenue. However, the regulation of such taxes should be centrally legislated even though the administration is decentralized.

vi. The use of federal government power to annex the land resources of states should be discouraged. The federal government should only ensure that mining, which is currently on its exclusive list, is carried out according to international requirements for environmental purity and other standards. The functions of the federal government that enable it to exert excessive influence through the alienation and annexation of states' rights to resources found and exploited in their land should be reviewed to restore those functions and rights to the states with control /regulation vested in the federal government.

5. Conclusion

Presently the state of fiscal relations between the states and the federal government shows that very few states can pay the administrative costs to run their governments. The level of dependence of each state on the federal government and indirectly on oil revenue is very high. The ratios used in this analysis, however, reveal a higher level of dependency of states in the hinterland of northern Nigeria, than in the south. Northern states in the commercial nerve centres also have higher fiscal performance indices.

The state governments are very important units for policy transmission in a federal structure. The weakness of this unit can frustrate policy efforts and can eventually result in the dissolution of the federation. Conscious programmes, including the devolution of some tax powers to the states by the federal government, should be initiated to strengthen the fiscal base of the states. Besides, the principles and practice of federalism can only thrive under a democratic environment. The military administration of Nigeria has contributed to the weakening of the states through the concentration of power at the federal level. This should not be allowed to continue. The states should be given incentives to exploit internal revenue sources for fiscal independence and self-reliance.

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