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Fiscal Federalism: Nigeria's Post-Independence Experience, 1960–90

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Summary. — Based on the former 21-state structure, the paper examines fiscal relations between the federal and state governments in Nigeria. The paper argues that fiscal performance in a federal structure must include an investigation into the nature of the fiscal relationships between the different tiers of government. The study reveals that states were dependent on the federal government for revenue before the economic crisis in 1979–80 and evidence of a degree of centralization. The adjustment period featured fiscal decentralization. The findings of this study indicate that the allocation formulae were not strictly adhered to by the federal government. States, it is argued, need some financial autonomy if they are to contribute to national development.

1. INTRODUCTION

Fiscal federalism remains an important area of study especially for countries such as Nigeria which are characterized by regional or state organization. Twenty-one states and the Federal Capital Territory (Abuja) made up Nigeria's Federation until August 25, 1991 when the federal government created an additional nine states. Hence the country now consists of 30 states excluding the Federal Capital Territory. This study concentrates, however, on the former 21-state structure. Nigeria's structure developed from three regions to four regions during 1960–66. In 1967–71, the country had 12 states. In 1975–76, a 19-state structure was created which lasted until September 1987. Although these were political reorganizations, they also reflect historical and economic factors.

The creation of more states affects an economy's fiscal operations. The nature and type of relationship between the federal government and the states has to be worked out, especially in terms of revenue-sharing and expenditure. State fiscal structures have to be developed and fiscal functions of allocation, distribution, and stabilization have to be monitored to ensure growth and development within the economy. The federal government must ensure that expenditure and revenue patterns in states or regions do not create distortions in the larger economy. Thus, a meaningful discussion of Nigeria's fiscal performance must examine the nature and character of fiscal relationships between the different tiers of government (federal, state, and local). While there are numerous studies on fiscal federalism for developed economies, there are few on sub-Saharan Africa.

This paper, using a political economy approach, analyzes fiscal federalism in Nigeria during 1960–90. We highlight significant episodes and discuss the implications for overall fiscal performance. This study contributes to an understanding of intragovernmental fiscal relations in developing countries such as Nigeria. Following the introduction, section 2 discusses some theoretical issues. In section 3, we examine fiscal federalism within the economy during the post-independence period. Federal fiscal profiles as well as an evaluation of the implementation of the complex allocation system are presented in sections 4 and 5 respectively. Section 6 presents an overview of fiscal operations in all states. In section 7, we draw some implications and conclusions.

2. THEORETICAL ISSUES

Public expenditures play a significant role in the functioning of an economy at all levels of development. The theory of public expenditure development posits that the role of public expenditures evolves in the course of development since the budgetary func-

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tion must be adapted to the changing needs of the economy. Expenditure development is determined by economic, social, cultural, and political factors.

The varying needs of the economy relate to both the allocation and distribution perspectives of expenditure. The allocation perspective concerns the rising share of the public sector in the economy. It argues that as an economy grows, there is an expansion of the public sector, that is, a rising share of public expenditures in the GNP. This is the familiar Wagner's law concerning the "expanding scale of state activity."

In terms of distribution, it is necessary to ascertain whether as per capita income rises, there is an increasing need for distributional measures depending on variations in the existing distribution of income, and the desirability of a particular pattern of distribution. Changes in technology as well as demographic factors may affect expenditure development. These factors have been labeled "conditioning forces" (Musgrave, 1973, pp. 70–74). The preferred mix of public and private goods is partly influenced by changes in technology in both the capital and consumer goods sectors. Changes in demographic factors affect demand patterns and therefore the appropriate output mix. For example, an increase in the birth rate may influence future demand for education.

Conceptually, fiscal operations of any economy can be perceived in terms of two extreme forms of the public sector. One is a highly decentralized fiscal system in which the federal government has no economic responsibilities. The other branches of government perform virtually all economic functions. The other extreme is a case of total centralization where the federal government undertakes complete responsibility for all economic activities of the public sector without participation of other tiers of government. The fundamental difference between the two extreme cases is the degree of decentralization of fiscal and economic responsibilities. In reality, there is some degree of decentralization in all economies. At issue is the ratio of total revenue collected to expenditure allocated to state and local governments.

The degree of decentralization is the extent of independent decision making by the various arms of the government in the provision of both public and economic services.

> An operational measure of decentralisation is therefore the share of decentralised expenditures and revenues of the state and local governments in the nation's total fiscal activities (Ubogu, 1982, p. 3).

Historical, economic, political, geographical, cultural and social factors determine the degree of fiscal decentralization. It should be noted that analysis of fiscal decentralization in an economy may differ depending on whether emphasis is on tax (revenue) or expenditure.

In measuring fiscal decentralization, if the focus is on tax revenue then a distinction must be drawn between total and own revenues, with intragovernmental transfers constituting the significant difference. Within the context of expenditure centralization, allowances must also be made for the level of local expenditures flowing to the central government.

> Expenditure made at the local level may be not only centrally financed but also centrally directed. Local governments which act as central expenditure agents do not reflect expenditure decentralisation in a meaningful sense, just as centrally collected but shared taxes do not constitute true revenue centralisation (Musgrave, 1973, p. 342).

Therefore, various kinds of grants or transfers must be distinguished depending on the extent to which central control of expenditures is involved. Centralization could be measured between various tiers of governments. Hence, a country may be relatively decentralized between the federal and state governments, but relatively centralized at the local government level; the reverse is also possible.

The degree of centralization also affects the composition of the tax structure. Certain taxes are imposed more appropriately and are better administered at the federal level, while others are better handled at the state and local levels. Consequently, differences in tax centralization have implications for stabilization and economic development. Several economists have attempted to analyze the economic factors responsible for the different levels of fiscal centralization. The literature on fiscal federalism maintains that centralization of government expenditure is often accompanied by rising per capita national income. This argument is predicted on three assumptions: (a) as economic development and increasing urbanization occur, there is pressure on government to provide better services requiring greater centralization; (b) there are economies of scale in public activities provided by the central government; and (c) broad-based taxation and superior taxing powers of the central government lead to an increasing centralization of government functions (Peacock and Wiseman, 1961).

Martin and Lewis (1956) have shown, however, that local governments have been unable to execute the functions assigned to them because of lack of qualified personnel. Thus, centralization of government expenditures is necessary in order to optimally utilize limited qualified manpower. They further observed that the various degrees of centralization were related to the physical size of a country, rather than to the level of economic development.

Per capita income, size of population, costs, degree of urbanization, degree of openness of an economy, etc. are explanatory variables which have been utilized by scholars in studying fiscal centralization *vis-*

à-vis economic development. These studies have derived conflicting results (Pryor, 1967; Cates, 1972; Wheave, 1963; Kee, 1977; Ubogu, 1982).

The issues provide a framework within which we can describe and analyze fiscal federalism in Nigeria, bearing in mind that economic, political, social and cultural factors are often difficult to separate.

3. NIGERIA'S FISCAL FEDERALISM

Fiscal arrangements in Nigeria have evolved as the economy progressed from a unitary to a federal type of government and the form of government became increasingly decentralized. Nigeria's fiscal federalism during the pre-independence period is summarized in Table A1.

(a) *The post-independence period*

This period has been an era of significant economic, social and political changes. The country fought an almost three-year civil war (1967–70) which had an impact on government expenditures and revenue patterns. In addition, the form of government was further decentralized by the creation of 12 states in 1967 out of the existing four regions. In 1976, 19 states were created and local governments became officially known as the third tier of government.

The military took power and ruled for almost 13 years before a civilian administration was installed in October 1979. Military rule was characterized by the promulgation of decrees affecting the country's fiscal operations. In 1984, the military once again seized power from the civilians and there have since been two military regimes, the Buhari regime and the Babaginda administration.

In 1987, two new states (Akwa Ibom and Katsina) were created thereby bringing the number to 21, excluding the Federal Capital Territory (Abuja) which received full status and thus was entitled to the allocation of federal funds.

The ascendancy of the petroleum sector as the major foreign exchange earner, windfall profits from petroleum beginning in 1974, and the dependence of the economy on oil revenues had implications for federal revenue and expenditure patterns. For example, as a result of high foreign exchange earnings, the government embarked on various nonviable projects and became actively involved in virtually all sectors of the economy.

The post-independence period featured a serious economic crisis. Beginning in 1979–80, the economy entered a recessionary phase. The prolonged high rates of inflation and unemployment coupled with declining productivity underlay the economic stagflation. Consequently, various stabilization and adjustment packages aimed at reversing the crisis were introduced beginning in 1984. In 1986, the economy was subjected to an IMF-type structural adjustment program.

The issues highlighted above have had an impact on the evolution of fiscal federalism during the post-independence period in Nigeria. In particular, a series of government-sponsored commissions and committees played a major role in determining the shape of fiscal federalism.

(i) *The Binns Commission of 1964*

Following the introduction of a Republican constitution in 1963, the Binns Revenue Commission was appointed in 1964 to review the intragovernmental fiscal relations. Its terms of reference included:

> 1. To review and make recommendations with respect to the provisions of sections 140 and 141 of the constitution of the Federation;
> 2. To examine the appropriateness, in the prevailing circumstances of Nigeria, as regards: (a) the formula for the allocation of the proceeds of mining rents and royalties laid down in section 140 of the constitution of the Federation; (b) the formula for the distribution of funds in the Distributable Pool Account laid down in section 141 of the constitution of the Federation (Binns, 1964, pp. 5–6).

Regarding the method of distributing funds among the regions, the commission rejected the principles of derivation and need and utilized the principles of regional financial comparability, continuity in government services, and maintenance of minimum responsibilities. The commission recommended that 35% of federally collected revenues from import duties, mining rents and royalties were to be paid into the Distributable Pools Account and distributed among the regions on the basis of North 42%, East 30%, West 20% and Mid-West 8%. After the 1966 military intervention and the creation of 12 states in 1967, the share of the Northern Region was divided among the six northern states on the basis of population and equality of states. The military government carried out the changes by promulgating, as an interim measure, Decree no. 15 of 1967 which stipulated how the funds in the Distributable Pool Account were to be shared among the 12 states. It took cognizance of the regional blocks and segmented the funds in the account which had accrued to those regions among the new states. The principle adopted in dividing a region's share among the states was *ad hoc* and unsatisfactory. As a result, in 1966 the military government appointed an Interim Revenue Allocation Review Committee under the chairmanship of Chief I. O. Dina.

(ii) *Interim Revenue Allocation Review Committee*

This committee, the first consisting only of Nigerians, had the following terms of reference:

> In the light of the creation of twelve states, charged at present with the functions formerly exercised by the regional governments to: (a) look into and suggest any change in the existing system of revenue allocation as a whole. This includes all forms of revenue going to each Government besides and including the Distributable Pool Account; and (b) suggest new revenue sources both for the Federal and State Governments (Federal Republic of Nigeria, 1967).

In carrying out its mandate, the committee proposed possible principles that could serve as criteria for revenue allocation, including four of those used in the earlier allocation system. The principles were a minimum national standard of basic needs, population, tax efforts, financial prudence, fiscal adequacy, balanced development, independent revenue, derivation and national interest. The allocation of revenue between the federal and the state governments was divided into independent revenue and shared revenue. The independent revenue that went to the federal government was comprised principally of company (including oil companies) income taxes while that of the state governments consisted of personal income tax, licenses, fees, etc. The shared revenue consisted of revenue from excise, import, and export duties, mining rent and royalties from off-shore operations, and royalties from in-shore oil and solid mineral operations. In addition, the committee recommended that shared revenue should be allocated among the federal government and three accounts, the States' Joint Account (to replace the Distributable Pool Account), the Special Grants Account, and the Derivation Account. The formula for the allocation of shared revenue is given in Table 1.

The committee worked out the details for sharing the States' Joint Account. In terms of derivation, the committee argued that the rent from on-shore oil exploration should be assigned in full to the state from which the oil was extracted while 10% of the royalties should be shared on derivation. It must be noted that this first indigenous revenue allocation committee addressed in its recommendations vital fiscal issues. For example, it called for the centralization of certain functions, an overhaul of tax administration throughout the country, and uniformity in personal income taxes — measures that would increase tax revenue to federal and state governments. In addition, the committee recommended the intensification of federal spending on public goods with spillover characteristics.

The military government, however, rejected the report of Chief Dina's Committee and enacted Decree 13 of 1970 which modified the distribution of the Distributable Pool Account. The revenue paid into the account was distributed among the states on the basis of 50% equality of states and 50% on population. Furthermore, a 1971 off-shore oil revenues decree was promulgated, amending section 140(6) of the constitution which provided that the continental shelf of a state be considered part of its territory:

> The 1971 amendment stated that: (a) the ownership of and the title to the territorial waters and the continental shelf shall vest in the Federal Military Government; and (b) all royalties, rents and other revenues derived from or relating to the exploration, prospecting or searching for or the mining or working of petroleum (as defined in the Petroleum Decree 1969) in the territorial waters and the continental shelf shall accrue to the Federal Military Government.

One implication of this decree was that all the revenues from off-shore operations accrued to the federal government while those from in-shore operations were allocated as per the existing formula: 45% on derivation; 50% to the Distributable Pool Account; and 5% to the federal government.

In 1975, further changes were effected in the revenue allocation system. The Distributable Pool Account was enlarged and revenues credited to the account included 35% of import duties other than motor fuels, tobacco, wine, potable spirits and beer; 100% of the import duty on motor fuels and tobacco;

Table 1. *Allocation of shared revenues (%)*

Account	ED (1)*	IM (2)†	ED (3)‡	MRI (4)§	MRRO (5)¶
Federal	60	50	15	15	60
State Deriv	—	—	10	10	—
States' Joint	30	50	70	70	30
Special Grants	10	—	5	5	10
Total	100	100	100	100	100

Source: Federal Republic of Nigeria (1969), p. 77.
*Excise duty.
†Imoprt duty.
‡Export duty.
§Mining royalty (in-shore).
¶Mining rent and royalty (off-shore).

50% of the excise duty on any commodity; 100% of the export duty (if levied) on produce, hides and skins; 80% of mining rents and royalties from on-shore operations; and 100% of mining rents and royalties from off-shore operations.

(iii) *Technical Committee on Revenue Allocation*

The creation of 19 states in 1976 and the demand by the constitution drafting committee for a new revenue allocation formula for inclusion in the proposed constitution led to the appointment of The Technical Committee On Revenue Allocation in 1977 under the chairmanship of Professor Ojetunji Aboyade. Its terms of reference were:

> Taking into consideration the need to ensure that each government of the Federation has adequate revenue to enable it to discharge its responsibilities and having regard to the factors of population, equality of status among the states, derivation, geographical peculiarities, even development, the national interest and any other factors bearing on the problem, the committee should: (a) analyse the present revenue allocation formula with a view to determining its adequacy in the factors mentioned above and representations from the Federal Government and the State Governments and other interested parties, (b) based on the findings in (a) above, recommend new proposals as necessary for the allocation of revenue as between Federal, State as well as the Local Governments, and also amongst the States, and the Local Governments, (c) make whatever recommendations deemed necessary for the effective collection and distribution of Federal and State revenues.

The committee rejected the principles used in previous allocation systems. It recommended, however, the following five criteria in allocating the States' Joint Account: equality of access to development opportunities; national minimum standards for national integration; absorptive capacity; independent revenue and minimum tax efforts; and fiscal efficiency. The following weights were assigned to each of the above criteria, respectively: 0.25, 0.22, 0.20, 0.18, and 0.15.

The committee maintained that the allocation criteria should be applied to the incremental changes in the States' Joint Account and not to the total absolute amount to ensure that each state government would be able to maintain a minimum continuity of services. The same formula was suggested for local governments.

The allocation formula recommended by the committee was: 57% for the federal government; 30% for States' Joint Account; 10% for local government and 3% for Special Grants Account. The federal government, in accepting the Committee's recommendations, modified the formula to 60% for the federal government, state and local government shares remained unchanged, while there was no allocation for the Special Grants Account.

The other significant recommendations of the committee, accepted by the government, included: the concurrent subjects in the new constitution would be similar to those of the 1963 constitution; the local governments would be established in the new constitution as the third tier of government; all mineral rights would be vested in public ownership, the tiers of government would be allocated tax powers and functions; and all revenue collected by the federal government (apart from personal income taxes from the Armed Forces, External Affairs Officers and the new Federal Capital Territory) would be shared among the federal, state and local governments.

The committee's report came under severe criticism especially as regards the weights attached to the five criteria and the recommendation that state governments should administer company income tax. It was feared that the company tax recommendation would introduce complications while the weights were arbitrary. An excellent appraisal and critique of the various fiscal commission reports is in Uduebo (1982).

(iv) *Presidential Commission on Revenue Allocation*

Consequently, a new revenue allocation commission was established in November 1979 under the chairmanship of Dr. Pius Okigbo. This commission, known as the Presidential Commission on Revenue Allocation or the Okigbo Commission was created two months after the new civilian administration assumed power. Despite the minority views expressed by some members of the Commission, the government modified and then accepted its report.

On October 2, 1981, however, the Supreme Court of Nigeria declared the recommendations of the Okigbo Commission invalid, null and void, and of no effect whatsoever.

(v) *Revenue Act of 1981*

In 1981, a new Revenue Act was passed by Parliament. It became operational in January 1982. Under the new revenue act, federally collected revenues were distributed as follows: federal government (53%), state governments (35%) and local governments (10%).

The 35% statutory share of the state governments was to be distributed thus:

(1) 30.5% shared among the states on the basis of:

— Minimum responsibility of government (equality of states) (40%)

— Population (40%)

— Social development as indicated by primary school enrollment of which 11.5% is based on direct primary school enrollment; and 3.75% on inverse enrollment (15%)

— Internal revenue effort — measured as the ratio

of total internal revenue to total recurrent expenditure (5%)
(2) 3.5% for the benefit of the mineral-producing states to be shared on the basis of derivation, of which: 2% will be shared directly on derivation and 1.5% will be administered by the federal government for the development of the mineral-producing areas.
(3) 1% allocated to the Federal Fund for ecological problems.

The 1981 Revenue Act remained in force until December 1989. The Act is the longest-standing revenue formula in the history of Nigeria's fiscal federalism. Even the two military governments ignored criticism leveled against the Act. We evaluate the implementation of the Revenue Act in a subsequent section.

(vi) *The National Revenue Mobilisation, Allocation and Fiscal Commission*

This body was inaugurated in 1988 under the chairmanship of General T. Danjuma. In December 1989, the government modified and then accepted the recommendations of the Commission. The government agreed with the Commission that there should be no dichotomy between on-shore and off-shore oil production for the purposes of revenue sharing and for the development of mineral-producing areas. The important aspects of the revenue allocation formula of the Danjuma's Commission accepted by the government are summarized in Table 2.

Table 2. *Revenue allocation formula of the Danjuma Commission**

Commission's recommendation		Government's approval
Vertical allocation:		
Federal government	47%	50%
State governments	30%	30%
Local governments	15%	15%
Special funds	8%	5%
	100%	100%
Special funds:		
Federal territory	1.0% FA†	1.0%
Stabilization	0.5% FA†	0.5%
Savings	2.0% FA†	—
Derivation	2.0% MR‡	1.0% MR
Development of oil MPA	1.5% OMR§	1.5% MR
Dev. of non-oil MPA	0.5% NOMR¶	—
General ecology	0.5% FA†	1.0%
	8.0%	5.0%
Horizontal allocation:		
Equality of states	40%	40%
Population	30%	30%
Social dev. factor‖	10%	10%
Land mass and terrain	—	10%
Internal rev. effort	20%	10%
	100%	100%

*The above revenue allocation formula except that of land mass and terrain took effect from December 1989.
†FA = Federal Account.
‡MA = Mineral Areas.
§OMR = Oil Mineral Producing Areas.
¶NOMR = Non-oil Mineral Producing Areas.
‖Includes Education (Direct Enrollment 8%); Inverse Enrollment (2%).

4. FEDERAL FISCAL PROFILES

During 1961–67, the federal government operated a surplus budget. In 1961–65, tax revenues exceeded both current and capital expenditures, and 1960–68 was characterized by high earnings from the export of agricultural commodities. Total revenue which was only N223.6 million in 1961 rose to N4.5 billion in 1974. In 1961–62, total revenue increased by 6.8%. The growth in total revenue in 1974 was 167.6% as a result of windfall profits from the petroleum sector. Until 1981, total revenue continued to show remarkable increases. Then during 1981–83 the economy was in depression and revenues declined. There were reductions in both current and capital expenditures during the same period (see Tables A2 and A3).

Beginning in 1968 (excluding 1973–74) the government operated a deficit budget. There were attempts to reduce the deficit during the 1984–88 depression. This effort was necessitated by the conditions of the Structural Adjustment Program (SAP). The evidence suggests some financial discipline on the part of the federal government. Table A4 presents some important fiscal ratios. Tax revenues constituted more than 60% of total federal revenues in 1961–89. Tax revenues contributed 16.5% of total revenue in 1961 and jumped to 86.9% in 1964 due to favorable international prices of agricultural exports. Thereafter there were slight decreases. During 1971–74 on average, the tax revenue share of total revenues was almost 80% — indicating the importance of the petroleum sector. Though not shown in the tables, our investigation revealed that the petroleum profit tax became the dominant revenue source during the 1970s. In 1979, for example, the petroleum profit tax averaged almost 88% of direct tax revenue.

There has been a rising share of tax revenues in gross domestic product. This share, which averaged less than 10% before 1971, rose to 18.8% in 1974 and remained almost at 18%; by 1980, it had increased to 21.6%. Beginning in 1981, the share of tax revenues in

GDP started to decline; with the severity of the depression, tax revenues constituted about 9.8% of national product. This was partly due to the decline in company income taxes, personal income taxes, etc. caused by the downward trend in economic activities. Beginning in 1987, however, the increase in productive activities, efforts by the government to enhance its revenue position, and increased petroleum earnings helped raise slightly the share of tax revenues in national product.

Furthermore, evidence on the structure of expenditure development in Nigeria reveals an interesting trend. As an economy grows and modernizes, a substantial part of its expenditures should be financed through the national product.

The ratio of total expenditures to GDP remained at almost 7% during 1961–67. It averaged almost 18% in 1968–72 and then declined to 13.4% and 16.3% in 1973 and 1974 respectively. Thereafter, the ratio increased substantially and by 1978, it was 39.4%. In 1981–89, the ratio of total expenditures to national income was erratic. Several factors were responsible for the observed structure of expenditure development. Population growth, a rising demand for social services such as health and education, as well as the provision of necessary infrastructure for development are all factors that could have increased the share of public expenditures in national income in the Nigerian economy. In addition, growth in military expenditures would, all things being equal, raise the share of total expenditures in national output. In the Nigerian economy, military expenditures (current and capital) increased during the period under study. In addition, in 1979–90 public expenditures were subject to political pressures. The civilian regime had to appease the electorate by engaging in various nonviable projects and inconsistent monetary and fiscal policies. In 1985 the military regime began to spend huge sums of money on the transition to civilian rule.

In order to make precise statements about the ratios in Table A4, however, it would be necessary to decompose the various revenue and expenditure sources and analyze the components within each fiscal ratio. For example, to properly incorporate the issue of economic development, it is important to ascertain over time and cross-sectionally how the ratio of tax revenue to GDP (TX/Y) and total expenditures to GDP (TE/Y) are related to income per capita.

The variations of total expenditures and other fiscal variables in real terms over time are of special interest. In 1961–74, fiscal variables increased when compared to nominal values during the same period. For example, in 1961, total federal government revenue and total expenditures stood at N223.6 million and N163.9 million respectively in nominal terms. In real terms, however, federal government revenue was N2.03 billion while total expenditures stood at N1.49 billion. Thus, 1961–74 seems better in terms of the impact of inflationary pressure in the economy. Tables A2 and A3 present fiscal variables in real terms. The adverse effect of inflation is clearly present during 1975–90. The period was, however, also characterized by various stabilization and adjustment policies. In real terms, government revenues and total expenditures declined drastically, sometimes by nearly 50%. This trend appears quite vivid in 1987–90.

The government actually spent less on both current and capital expenditures during 1981–90.

Federal fiscal profiles have been influenced by the political character of the country. Expenditures have increased because of federal responsibilities to the regions and states. The expansion of the political structures from four regions to 12 states in 1967, from 12 to 19 states in 1976 and then to 21 in 1987 brought pressure on federal fiscal balance. The recent creation of nine more states further compounds the problem. The need to give states fiscal autonomy raises the issue of which taxes should be collected at the state level. In addition, the size of the federal allocation to states depends on the amount of revenue collected. The domestic and external economic and political conditions could determine the magnitude of federal revenues. If states are to depend less on the federal government in terms of revenue then states must be given some autonomy in determining their fiscal operations. How the federal government can allow states to be independent in revenue and expenditure matters reflects the complex nature of fiscal centralization and/or decentralization in an economy characterized by ethnic rivalry, political instability, and diverse cultures. The following section evaluates the allocation system for 1982–89.

5. EVALUATION OF THE ALLOCATION SYSTEM, 1982–89

The 1981 Revenue Act that became operational in January 1982 remained in force until December 1989. The allocation formula embodied in the Act was discussed above. Our evaluation of the Act focuses on 10 states: Anambra, Bendel, Cross River, Lagos, Kaduna, Kano, Ogun, Oyo, Plateau and Rivers. A comparison was made between the statutory allocation to these states and the amount of federal funds actually received. A summary of the results is presented in Table A7.

The findings suggest some inconsistency in the application of the allocation formula. Some states received more than their statutory allocation while others received less. There are few instances where the actual allocation corresponded with the formula. For example, in 1986–89, Anambra State got far more

than its statutory allocation while Plateau State received less than its share. Except for 1983, Lagos received more than its statutory allocation during the entire period.

For the most part, the federal government has not been firm in applying the allocation formula. It could be argued that economic, political and social pressures resulted in cases of excess allocation. The entire scenario makes a mockery of the revenue allocation system. If states rely too heavily on the federal government then they would have fewer incentives to be aggressive and innovative in ensuring fiscal prudence. Moreover, the lopsidedness of the allocation system brings into question the seriousness of the federal government when it issues orders that states must maintain fiscal balance. The inability to stick to the allocation guidelines could affect the macro management of the economy by policy makers.

According to state officials, the excess funding over the statutory allocation is often caused by the federal government; the latter creates new programs, empowers the states to implement such programs and promises to pay for them. For example, states were ordered to implement the Better Life for Rural Women Programme and the Transition to Civilian Rule Programme. Invariably, the federal government provides funds to cater to such extra and unbudgeted programs. It should be noted that for cases in which some states received less than their statutory allocation, the federal government had deducted at the source funds owed to it by such states. The observed imbalance in 1987 when most states received far more than their statutory allocation can be explained in terms of excess money in the economy due to the increased revenue from petroleum. In the last quarter of 1986 and throughout 1987, the government realized a sort of "windfall" from the petroleum sector and state allocations were increased.

The *ad hoc* and inconsistent implementation of the Revenue Act of 1981 partly explains the frequent creation of revenue allocation commissions. According to most economic observers in the country, the government has not been firm in enforcing any allocation formula. For the period under study, allocations were erratic for Cross River, Lagos, Plateau and Rivers. Only Bendel State received its exact allocation consecutively in 1982–84; other states such as Ogun, Oyo, Plateau and Rivers received their exact allocation only in 1982 and 1983.

It is difficult to examine the impact of the 1981 revenue allocation system. There are no data on states' gross domestic product or income. Data on agricultural and industrial production for each state are scanty. As regards agriculture, there are production figures on various crops for each state. Agricultural production for all states decreased during the period under study. There were, however, slight increases in the production of cocoa and palm produce for 1987–88 (Federal Office of Statistics, 1989).

State governments, like the federal government, were involved in various economic activities. Most of the allocations from the federal government were used by states in floating companies either directly or in partnership with internal and external investors. States owned investment and finance houses as well as banks. States were involved in beer, cement, paint, agriculture, transport and other types of businesses (Federal Republic of Nigeria, 1986). These state enterprises performed badly and most of them have been either privatized or commercialized.

It is apparent that most states were experiencing economic problems despite the "generous" financial support from the federal government. Urban unemployment rates for the states are highlighted in Table 3. In 1984–87, most states recorded high urban unemployment rates. In 1984, Anambra had an unemployment rate of almost 15%; Bendel almost 13%; Cross River 14%; Imo about 16% and Lagos almost 10%. The unemployment rates for Bendel in 1986 and 1987 stood at 25.1% and 32.4% respectively. It must be noted that Bendel, Cross River, Imo and Rivers are oil-producing areas. The federal allocation coupled with grants these states received as oil-producing areas seemed not to have arrested the high unemployment rates. These figures may underestimate unemployment given that most job-seekers do not patronize the labor exchanges. The high unemployment rates in these states suggest, among other things, a loss of potential output. Kano and Kwara, however, seemed to have performed better in terms of employment (see Table 3).

Inflation rates for states are not usually published but the available data on retail prices of certain basic commodities in all states indicate sharp increases in the prices of basic commodities during 1986–90 (CBN, *Annual Reports*). There has been a decline in the real wage of workers in all the states, although most states reduced their unemployment rates in 1990 and 1991.

The provision of social services by the states consumes most of the federal allocations. Primary, secondary, technical and vocational schools come under the purview of state governments. Education in the states constitutes a substantial part of both current and capital expenditures. The population of each state has been growing by 2.5–3% annually requiring increased expenditure for education. Yet the period of structural adjustment has been characterized by reduced expenditures on secondary education in almost all the states. During 1981–85, most Northern states spent huge sums on scholarships for both secondary and tertiary education. Some of the university scholarships were tenable abroad — which also helps explain the excess statutory allocation to some of these states.

Table 3. *Urban unemployment rates in Nigerian States. 1985–91 (%)*

States	1984	1985	1986	1987	1989	1990	1991*
Anambra	14.8	9.4	10.7	6.1	10.2	10.9	6.7
Bauchi	7.0	7.4	8.9	6.9	2.5	2.6	2.9
Bendel	12.8	11.6	25.1	32.4	13.0	10.1	8.5
Benue	8.0	13.8	9.1	10.4	7.7	4.1	2.9
Borno	5.7	12.6	8.1	6.0	4.3	3.5	6.5
Cross River	14.1	15.4	15.9	14.5	14.1	12.7	11.8
Gongola	13.3	16.0	8.2	3.0	1.0	10.1	13.0
Imo	15.7	15.9	18.8	19.4	10.4	15.0	5.9
Kaduna	5.7	12.2	8.1	19.8	10.2	7.9	3.0
Kano	3.6	2.3	2.7	2.3	1.3	7.0	1.4
Kwara	0.3	1.5	5.3	5.8	2.1	0.9	3.2
Lagos	9.7	7.3	11.4	7.1	6.1	4.3	1.5
Niger	2.7	3.9	12.0	5.1	2.9	†	2.4
Ogun	6.5	5.1	5.5	14.6	2.1	2.3	1.6
Ondo	4.5	6.1	7.8	14.7	7.4	6.4	1.4
Oyo	8.1	11.5	5.9	10.4	8.1	1.7	2.9
Plateau	2.3	7.1	7.6	16.1	6.0	4.1	6.0
Rivers	7.3	10.1	11.6	21.8	12.9	7.2	18.8
Sokoto	0	1.4	2.8	4.1	11.3	8.4	9.5
All Nigeria	7.9	9.7	10.0	12.2	7.5	5.9	5.9

Source: Federal Office of Statistics, Lagos.
*Figures are for March 1991.
†Less than 0.1.

The data on primary school enrollment in all the states show that apart from the slight increase in 1982–83 (2.1%), enrollment declined from 14.3 million to 12.9 million in 1986 representing a decline of 3.5%. This trend is related to the stabilization and adjustment policies of the period. The introduction of school fees and other charges in primary, secondary and other types of training institutions resulted in fewer pupils since some parents could not afford the increased fees (Ekpo and Ndebbio, 1992, pp. 58–60). The impact of stabilization policies is evident in the health sector. In 1984, out of 11,177 health establishments, state governments owned 2,968 or 27% of the total, while the federal government owned 78 (0.7%). There were 3023 and 3022 state-owned health establishments in 1985 and 1986, respectively. The bulk of the health establishments were owned by private concerns and local governments (Federal Office of Statistics, 1989).

The paucity of data on important variables such as income/production at the state level precluded a cross-sectional correlation analysis. Nonetheless, our impressionistic discussion of certain economic and social indicators has shed some light on the use of funds allocated to the states.

6. STATE FISCAL OPERATIONS

The annual growth rates of state tax revenues, current and capital expenditures, and federal statutory allocations are presented in Table A6. States operated fiscal deficits throughout 1961–89. The states were dependent on the federal government to cover their expenditures. In fact, during the period under study, state tax revenues were far below either current or capital expenditures.

The degree of centralization, however, has varied over time. In absolute terms, state tax revenues were N283.82 million in 1961 and rose to N441.5 million in 1967, representing a 6.5% increase. The remarkable upswing during 1980–88 was partly due to the creation of more states, which resulted in increased employment and thus more personal income taxes. State current and capital expenditures were inconsistent. For example, in 1976, state current expenditures grew by 144.4% but in 1977 and 1978, they declined by 27.2% and 11.4%, respectively. By 1980, they had grown by 32.4%, but then showed some evidence of a decline during the period of adjustment. Capital expenditures exhibited similar patterns.

Table A6 shows that federal allocation to states recorded its highest growth rate before the SAP in 1972 (78.2%). During the same year, state capital expenditures grew by almost 71% while the efforts by states to generate their own revenue grew by 12%. Throughout the period of the oil boom, the efforts by states to generate own revenues declined from 12% in 1974 to 3% in 1978. It appears that during 1971–77, states were more dependent on federal allocations. The period before the oil boom shows a different pattern. During 1960–67, the regions were less dependent

on the federal government. The revenue allocation formula at that time allowed regions to collect a petroleum profits tax, airport and produce sale/purchase taxes, customs and excise taxes, and mining receipts. Hence, state or regional revenue efforts grew at reasonable rates. In 1973, state revenue efforts far exceeded the growth rate of total state expenditures. We are unaware of any policy that created such a scenario. During the Civil War (1967–70), federal allocations to regions declined at a compound rate of 11.2% while state tax revenues declined by almost 29%. For the same period, the efforts by states to generate own revenue decreased by almost 18%. During and after wars, most federal governments increase expenditures and therefore retained revenue to be allocated may be insufficient to meet state demands. Nigerian fiscal operations during the war and after support the above observation.

It appears that fiscal centralization in the economy was more pronounced before the period of supply-side stabilization and structural adjustment packages. A close examination of Table 4 indicates important episodes.

During 1961–66, when the economy was characterized by agricultural export earnings, state tax revenues declined while both current and capital expenditures increased. States relied on federal allocations. State efforts to generate tax revenues fell by 6.6%. The same pattern, though with different magnitudes, could be observed during the Civil War, the oil boom period and the windfall petroleum profits period.

During the adjustment period, however, there was a different scenario. Federal allocation grew partly as a result of the creation of more states. Federal allocation declined successively during 1981–86 except in 1985 (see Table A6). On the other hand, state tax revenues registered a compound growth rate of 22.9% during 1979–88 due to the fiscal discipline dictated by the SAP and the mandate from the federal government to the states that budgetary deficits would not be tolerated. State current and capital expenditures grew more slowly during the adjustment period as compared to other phases. Throughout the period under study, state revenue efforts declined except during adjustment when there was a growth rate of 12%. It follows, all things being equal, that the period of supply-side stabilization and adjustment was characterized by more fiscal decentralization. States attempted to match expenditures with revenues and depended less on the federal government.

States have tried to mobilize additional income by being innovative in establishing new revenue sources while at the same time enhancing the machinery for collecting taxes. The performance has varied among states. The federal government awards a surprise bonus to the state that generates the most revenue during a fiscal year. Last year, Bendel State was the winner of the bonus.

Presently, state government revenue sources, that is, their tax jurisdictions include:

— personal income tax (retention of proceeds)
— capital gains tax (retention of proceeds)
— stamp duties (retention of proceeds)
— football pools and other betting taxes
— land tax, including land registration fees
— vehicle license and drivers' license fees
— other fees, licenses and earnings on items relating to state government functions
— other taxes as provided for under section 4(7) (a) of the Constitution, for example, purchase tax.

In line with the above, states have floated companies and banks in partnership with private investors, established lotteries, created development funds, etc. — all with a view to becoming more revenue independent. Some states now obtain funds from capital and money markets. This was not the case before adjustment.

7. CONCLUSION

We have examined fiscal operations in the Nigerian economy using a political economy approach. Specifically, we described the post-inde-

Table 4. *Nigeria: Compound growth rates of fiscal variables in real terms, 1961–88 (%)*

Items	1961–66	1967–70	1971–78	1974–76	1978–88
Federal allocation	2.72	−11.2	4.7	0.7	15.2
Federal revenue	2.00	1.0	4.4	1.0	10.0
Federal tax revenue	−0.90	4.2	3.6	−2.5	10.5
Federal current expenditure	2.9	30.9	7.0	35.4	9.1
Federal capital expenditure	−4.6	6.8	26.6	23.6	5.9
States tax revenue	−8.6	−28.6	−4.7	−12.9	22.9
States current expenditure	−0.6	−11.9	9.1	53.1	11.1
States capital expenditure	−5.3	−16.8	31.5	7.7	7.7
States revenue efforts	−6.6	−17.8	−18.1	−36.3	12.0

Source: Computed by author based on data in tables in the appendix.

pendence revenue allocation commissions during 1964–89 to explain the evolution of fiscal federalism within the economy. We evaluated the implementation of the allocation formula in the Revenue Act of 1981. Furthermore, an impressionistic view of the impact of the allocation system was presented. The analysis showed that state governments were dependent on the federal government before the economic crisis of 1979–80, suggesting some evidence of centralization. The stabilization and adjustment period featured some degree of fiscal decentralization.

It was apparent that states received more than their statutory allocation, implying that the allocation formula was not strictly adhered to by the federal government. This was due to political and social pressures. Consequently, states were dependent on the federal government to meet their deficit financing. It was rather difficult to find a common pattern or framework that could be used in describing the nature of fiscal operations within the economy, especially in the states. All evidence confirms revenue centralization while there were certain episodes of expenditure decentralization.

The creation of more states, the Civil War, the dependence of the economy on the petroleum sector, and the economic crisis that followed the end of the oil boom have had implications for the country's fiscal federalism. Moreover, fiscal federalism is influenced by noneconomic factors. The agitation for more states, for example, is more political than economic. The economic viability of these states has been of secondary importance.

The evidence implies that states need some financial autonomy if they are to contribute effectively to national development. In other words, fiscal decentralization within the economy is necessary. It is therefore suggested that: (a) certain taxes such as export and custom duties should be returned to the states; (b) states should be allowed to obtain royalties, etc. from minerals within their areas, with an agreed fraction paid to the federal government; (c) certain vital data such as production and income should be gathered at the state level to allow for a more robust analysis of the economy in general and a given state in particular; and (d) the federal government must show fiscal discipline itself before giving such directives to states. The first suggestion would involve the reintroduction of the abolished commodity or marketing boards which could serve as agents in implementing the transfer of exports and custom duties to states. It is unlikely, however, that this will occur since their abolition is part of the on-going structural adjustment program.

The *ad hoc* and inconsistent nature of the country's fiscal operations has consequences for the macroeconomic management of the economy. The issues of stabilization, efficient resource allocation, distribution, growth, etc. — all matters of structural adjustment — could create further disequilibria within the economy if intragovernmental fiscal relations are not properly managed.

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APPENDIX

Table A1. *Summary of the evolution of revenue commissions and allocations formula (preindependence period)*

Year/Commission	Principles/criteria and allocation formulae
1964 Phillipson	Based on derivation and even progress or even development. Grants were solely on derivation. East 24%, West 30% and the North 46%.
1950 Hicks-Phillipson	Based on independent revenue, derivation, need, and national interest. Same formula as in 1946 except regions were empowered to impose sales taxes on gasoline, entertainment taxes and stamp duties.
1954 Louis-Chick	Federal government to retain revenues from company income tax; and 5% of the duties on export, tobacco, excise; 50% of import duties (except on tobacco and motor fuels) be shared thus: 40% for the West; 30% for the North; East 29% and Southern Cameroons 1%. Regions to collect and retain revenues from personal income tax. 50% of tobacco export and excise duties and 100% of the duty on motor fuel to be shared among the regions in accordance with regional consumption.
1958 Raisman-Trees	Balanced development, continuity in regional government services, maintenance of minimum responsibilities and population. Divided each revenue into three parts: (a) states of origin, (b) federal government, (c) Distributable Pool Account. For (a) 50% of mining rents and royalties and import duties; for (b) 30% of mining rates, royalties and import duties; for (c) 20% of mining rents and royalties and 40% of import duties. Allocation from the Pool Account: 40% North; 31% West; 24% East and 5% Southern Cameroons.

Table A2. *Nigeria: Federal government revenue, tax revenue and expenditures in real terms, 1961–90 (million naira)**

Year	TR†	TX‡	CE§	CAPE¶	TE‖
1961	2033.18	1555.5	880.6	609.1	1490.0
1962	1837.62	1590.0	941.9	491.5	1288.5
1963	1779.29	1332.9	854.5	457.1	1311.4
1964	1848.07	1606.0	950.9	504.0	1454.7
1965	2006.88	1672.5	980.3	497.5	1478.1
1966	1802.59	1471.8	1042.8	458.2	1501.2
1967	2336.93	1672.9	1190.5	652.1	1843.6
1968	2236.62	1769.2	1682.7	1008.5	2691.5
1969	2099.89	1694.4	2407.9	682.2	3090.0
1970	2435.23	1975.4	3496.7	849.6	4346.5
1971	3653.03	2945.0	2870.9	543.1	3414.1
1972	4256.97	3350.0	4280.0	1367.6	5647.6
1973	3198.68	2583.2	1817.9	1067.4	2885.3
1974	5214.94	4057.8	1743.7	1780.9	3524.7
1975	5514.70	3750.9	4700.1	3518.2	8258.3
1976	5369.76	3758.0	4333.0	3366.6	7699.6
1977	5361.47	3917.7	4168.7	3628.2	7796.9
1978	5151.24	3903.2	4924.2	3584.1	8508.3
1979	5774.34	3649.8	4420.1	2559.5	6979.6
1980	6482.55	4670.0	3879.7	3572.6	7452.3
1981	14835.90	11418.1	6998.9	6947.4	13946.3
1982	13368.64	9194.0	8429.4	9034.4	17463.8
1983	11548.02	6940.8	6215.9	6448.9	12664.8
1984	11766.80	7197.0	6275.4	5411.0	11686.4
1985	12991.86	8825.2	6385.2	6737.4	13122.6
1986	11163.13	7154.6	6693.0	7892.9	14585.9
1987	15687.38	10800.0	9778.9	3982.8	13761.7
1988	14842.83	9963.6	10548.6	4532.7	15081.3
1989	21211.86	13548.7	10967.9	6343.6	17311.4
1990	24868.18	14513.9	13464.5	9267.5	22732.0

Source: Computed by author from data in: 1. Files of the Federal Ministry of Finance, Lagos. 2. Central Bank of Nigeria: *Economic and Financial Review*, various issues.

*Nominal values have been deflated via the Implicit Price Deflator (IPD). For 1961–80, base year is 1975; for 1981–90, base year is 1984.

†Total revenue.

‡Tax revenue.

§Current expenditure.

¶Capital expenditure.

‖Total expenditure.

Table A3. *Nigeria: Annual growth of federal revenues, tax revenue and expenditures in real terms, 1962–90 (in %)*

Year	TR*	TX†	CE‡	CAPE§
1962	–9.6	2.2	7.0	19.3
1963	–3.2	–16.2	–9.3	–8.1
1964	3.9	20.5	11.3	10.3
1965	8.6	4.1	3.1	–1.3
1966	–10.2	–12.0	6.4	–7.9
1967	29.6	13.7	14.2	42.3
1968	–4.3	5.8	41.3	54.7
1969	–6.1	–4.2	43.1	–32.4
1970	16.0	16.6	45.2	24.5
1971	50.0	49.1	–17.9	–36.1
1972	16.5	13.8	49.1	151.8
1973	–24.9	–22.9	–57.5	–22.0
1974	63.0	57.1	–4.1	66.8
1975	5.7	–7.6	171.8	97.6
1976	–2.7	0.2	–8.6	–4.3
1977	–0.2	4.2	–3.8	7.8
1978	–3.9	–0.4	18.1	–1.2
1979	12.1	–6.5	–10.2	–28.6
1980	12.3	28.0	–12.2	39.6
1981	129.1	144.5	80.4	94.5
1982	–10.9	–19.5	20.4	30.0
1983	–13.6	–24.5	–26.3	–28.6
1984	1.9	3.7	1.0	–16.0
1985	10.4	22.6	1.8	24.5
1986	–14.1	–18.9	4.8	17.2
1987	40.5	51.0	46.1	–49.5
1988	–5.4	–7.7	7.9	13.8
1989	42.9	36.0	4.0	39.9
1990	17.2	7.1	22.8	46.1

Source: Computed by author from Table A2.
*Total revenue.
†Tax revenue.
‡Current expenditure.
§Capital expenditure.

Table A4. *Nigeria: Ratios of fiscal variables (in %) and per capita income (in naira), 1961–90*

Year	TR/Y*	TX/TR†	TX/Y‡	TE/Y§	Y_p¶
1961	9.4	16.5	7.2	6.9	44.8
1962	8.6	73.2	6.3	6.0	51.7
1963	8.5	74.9	6.3	6.2	52.6
1964	8.8	86.9	7.7	7.0	55.2
1965	9.6	83.3	8.0	7.0	57.9
1966	8.5	81.6	7.0	7.1	60.2
1967	11.1	71.6	8.0	8.7	48.4
1968	10.1	79.1	8.0	12.2	45.7
1969	10.0	80.7	8.0	14.7	58.3
1970	11.3	81.1	9.2	20.2	83.3
1971	17.1	80.6	13.8	16.0	99.3
1972	19.7	78.7	15.5	26.1	100.5
1973	14.9	80.8	12.0	13.4	156.0
1974	24.2	77.8	18.8	16.3	250.3
1975	25.6	68.0	17.4	38.3	280.2
1976	24.8	70.0	17.3	35.5	349.2
1977	24.9	73.1	18.2	36.1	409.6
1978	23.9	75.8	18.1	39.4	386.4
1979	26.8	63.2	16.9	32.4	356.5
1980	30.0	72.0	21.6	34.4	362.6
1981	20.7	76.9	15.9	19.4	321.1
1982	18.8	68.8	13.0	24.5	304.1
1983	16.2	60.1	9.8	17.7	276.0
1984	16.5	61.2	10.1	16.4	251.0
1985	18.2	68.0	12.4	18.4	256.5
1986	15.7	64.1	10.1	20.5	292.1
1987	23.4	68.8	16.2	20.6	289.8
1988	19.1	67.1	12.8	19.4	281.6
1989	22.6	63.9	14.4	18.4	271.7
1990	27.3	58.4	16.0	25.0	275.7

Source: Computed by author based on data from Table A2.
*Ratio of total revenue (TR) to GDP (Y).
†Ratio of tax revenue (TX) to total revenue.
‡Ratio of ax revenue to GDP.
§Ratio of total expenditures (current + capital).
¶Per capita income.

Table A5. *Nigeria: Federal allocation, tax revenues and expenditures of regions and states in real terms, 1961–90 (million naira)*

Year	FA†	STX‡	SCE§	SCAE¶	TSE‖
1961	607.27	283.82	1050.91	515.18	1566.09
1962	553.08	294.00	1062.24	432.85	1495.23
1963	540.71	287.93	909.93	396.64	1306.57
1964	726.67	250.93	959.13	416.93	1376.07
1965	816.88	198.56	1047.25	381.75	1429.00
1966	713.53	165.53	1013.00	371.59	1388.94
1967	612.14	441.57	906.57	362.86	1269.43
1968	593.08	309.92	805.15	186.54	991.69
1969	703.33	252.50	962.72	236.11	1198.83
1970	380.00	114.46	546.92	173.85	713.08
1971	593.75	128.25	689.03	170.19	859.22
1972	1057.88	232.42	1057.88	412.12	1470.00
1973	673.77	156.64	923.21	472.08	1395.28
1974	888.39	131.00	599.31	490.80	1090.11
1975	1039.90	73.93	880.70	409.70	1290.40
1976	906.98	86.43	2152.06	613.41	2766.27
1977	1048.33	92.07	1566.33	2660.25	4226.65
1978	855.17	87.31	1388.07	1518.07	2906.14
1979	1081.48	150.05	1367.14	930.42	2297.57
1980	1756.85	564.98	1810.21	1998.72	3808.94
1981	4665.36	1279.51	6030.36	8431.10	14461.46
1982	3688.30	1495.23	5379.43	6757.50	12136.93
1983	3251.10	1506.48	5782.53	6405.27	12187.80
1984	2722.00	1678.90	4603.10	2424.00	7027.00
1985	2885.66	1401.86	4268.23	915.04	5183.27
1986	2472.87	1580.87	3876.70	982.96	4859.65
1987	3873.19	1221.56	3575.75	1588.94	5164.69
1988	4446.36	1184.13	3909.46	1948.42	5857.88
1989	4176.92	676.08	3434.85	2039.70	5474.56
1990	5022.19	1117.77	4513.09	2082.90	6595.99

Source: Computed by author.
*From 1960–67, allocations were for regions. Thereafter, allocations were for states.
†Federal allocations.
‡State tax revenue.
§State current expenditure.
¶State capital expenditure.
‖Total state expenditure.

Table A6. *Nigeria: Annual growth of federal allocation, state tax revenues and state expenditures in real terms, 1962–90 (in %)*

Year	FA*	STX†	SCE‡	SCAE§	TSE¶	SRE‖
1962	–8.9	3.6	1.1	–16.0	–4.5	19.7
1963	–2.2	2.1	–14.3	–8.4	–12.6	22.0
1964	34.4	–12.9	5.4	5.1	5.3	18.2
1965	12.4	–20.9	9.2	–8.4	3.8	13.9
1966	–12.7	–16.6	–3.3	–2.7	–2.8	12.0
1967	–14.2	166.8	–10.5	–2.3	–8.6	34.8
1968	–3.1	–29.8	–11.2	–48.6	–21.9	31.3
1969	18.6	–18.5	19.6	26.6	20.9	21.1
1970	–46.0	–54.7	–43.2	–26.4	–40.5	15.9
1971	56.3	12.0	25.9	–2.1	20.5	14.9
1972	78.2	81.2	53.5	142.2	71.1	15.8
1973	–36.3	–32.6	–12.8	14.5	5.1	59.5
1974	31.9	–16.4	–35.1	4.0	–21.9	12.0
1975	17.1	–43.6	47.0	16.5	18.4	5.7
1976	–12.8	16.9	144.4	49.7	114.4	3.1
1977	15.6	6.5	–27.2	333.7	52.8	2.2
1978	18.4	–5.2	–11.4	–42.9	–31.2	3.0
1979	26.5	71.9	–1.5	–38.7	–20.9	6.5
1980	62.4	276.5	32.4	114.8	65.8	14.8
1981	–73.5	126.5	233.1	321.8	279.7	8.8
1982	–21.0	16.9	–11.3	–19.9	–16.1	12.3
1983	–11.9	0.8	7.5	–5.2	0.4	12.4
1984	–16.3	11.4	–20.4	–62.2	–42.3	23.9
1985	6.0	–16.5	–7.3	–62.3	–26.2	27.0
1986	–14.3	12.8	–9.2	7.4	–6.2	32.5
1987	56.6	–22.7	–7.8	61.6	6.3	23.7
1988	14.8	–3.1	9.3	22.6	13.4	20.2
1989	–6.1	–42.9	–12.1	4.7	–6.5	12.3
1990	20.2	65.3	31.4	2.1	20.5	16.9

Source: Computed by author from Table A5.
*Federal allocations.
†State tax revenues.
‡State current expenditure.
§State capital expenditure.
¶Total state expenditure.
‖SRE = State Revenue Efforts = [State tax revenue/Total expenditures] %; For 1961, SRE was 18.1%.

Table A7. *Implementation of the revenue allocation system in selected Nigerian states, 1982–89 (million naira)**

Year	Statutory alloc.	Amount received	Difference
Anambra			
1982	181.3	181.4	0.1
1983	178.9	245.6	66.8
1984	157.0	157.0	0
1985	182.4	181.8	–0.6
1986	151.5	170.8	19.3
1987	342.6	409.8	67.2
1988	426.9	442.5	15.6
1989	573.0	588.2	15.2
Bendel			
1982	232.2	232.2	0
1983	225.6	225.6	0
1984	212.9	212.9	0
1985	228.1	189.9	–38.2
1986	198.2	173.9	–24.3
1987	415.8	493.7	77.9
1988	520.4	593.9	73.5
1989	676.3	712.0	35.7
Cross river			
1982	175.4	177.4	2.0
1983	172.5	203.2	30.7
1984	154.3	157.2	2.9
1985	170.5	152.8	17.7
1986	144.8	115.0	–29.8
1987	375.4	486.5	111.1
1988	232.3	258.8	26.5
1989	304.0	420.4	116.4
Lagos			
1982	133.9	183.9	50.0
1983	129.8	129.8	0
1984	113.4	199.3	85.9
1985	141.0	215.2	74.2
1986	140.7	221.9	81.2
1987	270.6	473.2	202.6
1988	338.4	552.1	213.7
1989	419.2	836.7	417.5
Kaduna			
1982	197.6	205.1	7.5
1983	192.3	250.5	58.2
1984	179.9	198.8	18.9
1985	220.7	240.6	19.9
1986	198.1	175.2	–22.9
1987	440.6	660.9	220.3
1988	291.2	433.3	142.1
1989	301.2	301.2	0
Kano			
1982	248.0	249.6	1.6
1983	240.2	241.8	1.6

Table A7. *Cont.*

Year	Statutory alloc.	Amount received	Difference
Kano *cont.*			
1984	228.2	229.9	1.7
1985	280.8	291.3	10.5
1986	254.6	252.5	–2.1
1987	501.8	559.3	57.5
1988	639.4	628.2	–11.2
1989	786.1	759.9	–26.2
Ogun			
1982	114.6	114.6	0
1983	111.9	111.9	0
1984	104.4	90.9	–13.5
1985	115.3	48.3	–67.0
1986	111.4	80.9	–30.5
1987	231.9	275.3	43.4
1988	285.4	312.0	26.6
1989	336.8	205.8	–131.0
Oyo			
1982	226.7	226.7	0
1983	220.4	220.4	0
1984	198.2	202.1	3.9
1985	239.9	361.9	122.0
1986	214.4	255.9	41.5
1987	437.2	471.4	34.2
1988	572.5	552.2	–20.3
1989	701.6	716.7	15.1
Plateau			
1982	126.2	126.2	0
1983	125.9	125.9	0
1984	96.6	98.3	1.7
1985	97.7	110.2	12.5
1986	77.6	21.8	–55.8
1987	202.4	121.4	–81.0
1988	300.7	242.6	–58.1
1989	378.8	339.9	–38.9
Rivers			
1982	226.2	226.2	0
1983	NA	NA	NA
1984	202.7	206.2	3.5
1985	208.2	220.3	12.1
1986	171.0	185.3	14.3
1987	384.0	489.6	105.6
1988	490.2	473.5	–16.7
1989	618.5	646.2	27.7

Sources: (1) Federal Ministry of Finance and Development, Lagos. (2) Central Bank of Nigeria, Lagos. (3) States Ministries of Finance.

*The allocation is based on the Revenue Act of 1981 formula.