

# Re-Examining the Failing Inter-Governmental Fiscal Relations and Sustenance of Nigerian Federation: An Empirical Study

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## Abstract

This paper examined the negative impact of the conduct of intergovernmental fiscal relations (IGFR) on the sustenance of Nigerian federation. It showed the extent of centralization of IGFR with particular reference to the distribution of revenue-raising responsibilities and spending responsibilities as well as revenue sharing arrangement among the vertical organs of government. Specifically, the extent of fiscal centralization was examined and analysed on the basis of Federation Account operation, current revenue structure of the three vertical organs, total revenue decentralization ratio, federal-internal revenue sources ratio of the state and FCT and local government, general expenditure decentralization ratio, and summary of fiscal balance/imbalance of some selected states. The paper went further to identify the effects of the IGFR on Nigerian Federation before finally making some recommendations with emphasis on the need to revisit the fiscal relationship to resolve the recurring crises threatening its sustenance.

**Keywords:** Federalism, Centralisation, Fiscal relations, Fiscal autonomy

## 1. Introduction

The phenomenon of inter-governmental fiscal relations (IGFR) has long constituted a thorny issue within the Nigerian federation and it continues to be so. This situation has undoubtedly stemmed from the fact that the revenue accruing to an administrative unit determines the direction and level of its performance. In other words, the revenue accruing to a unit has a close correlation with the distribution of political, fiscal and government power. Over the years, the debate about inter-governmental fiscal relations has resulted in considerable conflicts between the central government and the lower levels of government, between northern and southern Nigeria, between the regions/geo-political zones and even among the states. This has been traced to the supremacy of the federal government in the share of Federation Account and assignment of tax jurisdiction, and the combination of which has been distorting both the revenue and expenditure structures of the other two levels. Successive federal military and civilian regimes from 1966 till date have been enjoying extensive jurisdiction over the legislation, administration and collection of the major taxes against the philosophy underlining the institution of a federal structure. These have however generated disaffection and suspicion among the units as well as the ethnic groups. Thus, over the years, it has attracted several efforts and/or attentions in the quest for understanding its nitty-gritty and the formulation of policy that will be acceptable to the vertical organs existing within Nigerian state. These various efforts and/or attentions have further provoked argument on the subject and which on their own have compelled further research efforts amenable to the attainment of a true federation in Nigeria. The political situation of Nigeria today and the need to understand the inter-governmental character of the Nigerian state constitute the major catalyst for this study. This paper sets out to first briefly discuss the subject matter of federalism and inter-governmental relations (IGR) as well as IGFR. The study relied on some secondary data gathered for period 1999-2007, covering the first eight years of Nigeria's fourth Republic, to determine the extent of centralization of IGFR in Nigeria as well as its impact on Nigerian federation and suggested solutions towards ensuring a stable federation.

## 2. Conceptual Clarification

### 2.1 The Subject-Matter of Federalism

The word 'federalism' has been a commonly used term in serious theological works since the 17<sup>th</sup> century and the subject is no doubt still current in political usage. The word federal is derived from the latin word "*fidere*", meaning "to trust". Federalism is the idea of a group or body of members that are bound together (latin: *foedus, covenant*) (Elazar and Kincaid, 1980) with a governing representative head which may be a king or God (as in the theology), or a thing or general assembly (as in politics). Federalism is the philosophy that underlies a system of government in which sovereignty is constitutionally divided between a central governing authority and constituent units, creating what is called a federation (<http://en.wikipedia.org/wiki/federalism>). The federal model is particularly appropriate to countries with diverse culture, (and religions, ethnic traits, vision, resource-endowment, character, and so on) and one of its essential elements is that it institutionalizes social divisions by creating mechanisms for the articulation of such diversity in the hope of forging unity through diversity (Olowu, 1995). Federalism is usually considered in this circumstance as a means of preventing a single group-defined in racial, class or linguistic terms from dominating the others and monopolizing the consumption of public goods (Jinadu, 1979). Babawale (1998) described it therefore as a means not only for forging unity in a society where there are diverse groups but also an attempt to allay fears of domination of one group by another.

However, Dunmoye (2002) emphasized that in a federation, the division of power between the regions and the centre is done in such a way that each government is able to carry out functions assigned to it by the constitution such that, as much as possible, each tier is financially independent of each other; and second the division is done in such a way that the states (rather than the centre) usually have control over most of the social services (like health, education, and social welfare). The simple deduction from above is that non-centralisation of power and authority goes with a federal system of government. That is, each level of government has some genuine autonomy from the other, and primarily accountable to its electorates (Anderson, 2000:1)

### 2.2 Federalism and IGR

Closely related to federalism is the subject of IGR. It has generated long-standing interest in the political and administrative history of Nigeria as it has always been in such other federations. Federalism and IGR are two different but inseparable concepts. The relationship between them relies upon what originates the formation of the federation as IGR gets conditioned by this. Whether in aggregative or disaggregative federation, according to Hahn and Levine (1980), IGR includes all the permutations, combinations and intricacies of relations among the levels of government. Basically therefore, it is a mechanism for reducing tension and uncertainty among different levels of government.

There are three major issues in IGR and these are: allocation of jurisdictional powers among the levels of government; inter-governmental fiscal relations; and administrative mechanisms for managing inter-governmental relations (IGFR) (Adamolekun, 1983 and 2002). Of importance to us is IGFR which is simply the allocation of government's spending and resources to the tiers of government. IGFR is all about fiscal decentralisation, which occurs when lower levels of government have statutory powers to raise (some) taxes and carry out spending activities within specified legal criteria (Oates, 1972:16-20 and Tanzi, 1995:297). Ebajemito and Abudu (1999:217) therefore defined IGFR as the modalities for the transfer of purchasing power from the richer to the poorer regions or states in order to reduce the inequality in the provision of quality service in all localities, and to ensure equity and social cohesion in a country. This definition is deeply rooted in effecting equalisation. Boadway, *et.al.* (1994) also simply described it as comprising the combination of transfers, tax sharing and harmonization systems. The character of a federal fiscal regime is determined by the who, how, how much, and what for of revenue raising, sharing, and spending among governments (Anderson, *op. cit.*:3). It was added that all of these factors can be important when considering fiscal arrangements within a federation. Summarising these, Abubakar (1986:255) clearly listed out the following three decisions as being central to IGFR:

- i. determining what taxes and related revenue to be collected by each level of government, that is fiscal power or tax jurisdiction;
- ii. in what proportions should such revenues be shared among the federal, state and local governments; and
- iii. what criteria or set of criteria to apply in sharing revenues among the state and local governments.

However, as revealed by various literatures, while the basic division of legislative and administrative powers among the levels of government is typically laid out in a federal constitution, many features of the fiscal arrangements are not and in effect making such arrangements highly flexible and competitive. These flexibility and competitiveness have made fiscal arrangements central to political debates to the extent that some federations are threatened.

### 3. Statement of the Problem

The entry of the military into politics in 1966 marked the beginning of post-independence centralization of the country's political and administrative system by putting in place the famous Decrees 1 and 34 (of 1966) to liquidate Nigerian Federation and giving rise to a "new Federation" characterized by greater centralization and consolidation of the national authority. By implication, Nigeria became a unitary state in Federal disguise (Williams, 1980), and from which Nigeria is yet to recover. This is often traced partly to what obtains in the military where the relationship is always hierarchical in nature. Asobie (1998) further provided the fundamental explanation for the persistence of centralizing trends in Nigerian federalism by citing the movement from an agricultural export commodity dependent economy to an economy largely dependent on the production and export of crude oil as a major factor. Associated with this, according to him, is the changing pattern of capital accumulation in the economy as well as the constitution, the composition and re-constitution of the Nigerian ruling class stimulated and sustained by the prominent role of the state in the economy. Today, issues have been raised about regarding Nigeria as a Federal state as there is every indication that the pattern of intergovernmental relations depicts unitarism. First, the federal government has demonstrated for decades an increased capacity to alter unilaterally and in its own favour the existing distribution of power between it and the regional governments and, indeed among the various levels of government and second, there has been an increasing accretion to the federal government of functions previously allocated to the regional (or state) governments (Asobie, *ibid*). The third and more important to this work is the economic power (as explained by the monopoly of control over the major sources of revenue in the economy and the imbalance in revenue sharing between the central government and the constituent units) that has also remained concentrated. Attempt shall be made hereunder to provide answers to the following questions:"

- (a) To what extent has economic or fiscal power been centralized?
- (b) What are the implications of the centralization for Nigerian Federation?
- (c) What alternative fiscal arrangement(s) can be suggested?

### 4. Assessing the Extent of Centralisation of IGFR in Nigeria

In this section, attempt is made to investigate the extent of the alleged centralization of the fiscal arrangement in Nigeria. This is based on the data collected on the following elements (for period 1999-2007) during a survey conducted in 2008 on IGFR in Nigeria.

#### 4.1 Federation Account (FA) Operation

This is a major source of conflict in Nigeria's fiscal relations as it has been a difficult task arriving at a generally acceptable formula for distributing the FA. Table 1 (in the appendix) shows a clear fiscal imbalance between May 1999 and May 2007. The federal government enjoyed averagely 45.9 per cent of the federation account in addition to the so-called special fund account while the states also enjoyed 30.3 per cent on the average leaving 19.3 per cent for local governments. The special fund account that existed between that 1999 and May 2002 was 10.4 per cent on the average within the first three years of the fourth republic and this fund was under the control of the federal government. This special fund account ceased to exist effective from June 1992 in response to the Modification Order handed down by the Supreme Court in its judgment on 2001 Resource Control suit.

The centralisation of fiscal power, from the point of view of federation account operation, is evident from the share that finally gets to each of the thirty-six (36) states and seven hundred and seventy-four (774) local governments respectively from the account in comparison with that of the federal government.

#### 4.2 Current Revenue Structure of the Vertical Organs of Government

Tables 2, 3, and 4 show the current revenue structure of the Federal, State (and FCT) and local governments in the period under consideration. From these tables, it is clear that the two lower tiers of government rely almost solely on the external sources of funding for their operations and thereby not enjoying the deserved autonomy underlying inter-governmental relationship in a federation. This shall be discussed further using Tables 6 and 7 below.

#### 4.3 Total Revenue Decentralisation Ratio

The degree of centralisation from the point of view of total revenue is clearly presented in Table 5 as it summarises the information in Tables 2, 3, and 4 to determine the extent of centralisation or decentralisation of total revenue. It is clear from the table that between 1999 and 2007, the federal government managed an average of 50.6 per cent of total revenue duly accounted for in the economy. This was followed by that of the states and FCT with an average of about 32 per cent, leaving 17.4 per cent for local governments. This is further presented in a clearer picture in figure 2.

#### 4.4 State and FCT and Local Government Revenue Sources: Federal/Internal Sources Ratio

Further to the determination of total revenue decentralisation, the external/internal sources ratio of the two lower tiers of government was also investigated. Table 6 below shows that between 1999 and 2006 (for which complete data were available), the percentage of federal government's contribution to the total revenue that accrued to the states and FCT was 88.5 per cent on the average and the remaining 11.5 per cent generated from internal sources. The federal government contribution was as high as 92.1 per cent in 2006 and 91.0 in years 2000 and 2005.

Table 7 also shows that out of the total revenue that accrued to the seven hundred and seventy-four (774) local governments between 1999 and 2006 (for which complete data were available), an average of 3.3 per cent was sourced internally while the remaining 96.7 per cent was from external sources (the federal and state governments). Of the 96.7 per cent, the state contributed 0.5 per cent while the bulk of 96.2 per cent was contributed by the federal government.

Due to the relative insignificance of revenue from internal sources, a clear case of a highly centralised fiscal system was established. The predominance of the federal sources might be traced partly to sharing pattern of the FA and partly due to relative instability of income from other (internal) sources as dictated by the tax jurisdiction of the tiers of government. The pictures of the two tables are as presented in figures 3 and 4 below.

#### 4.5 General Expenditure Decentralisation Ratio

To determine the fiscal balance/imbalance, especially with respect to the lower tiers of government, data on expenditure decentralisation ratio were also collected and presented in Table 8.

The table shows that between 1999 and 2006 for which data were available, the percentage of federal government's share of total expenditure was 54.7 per cent on the average. It was as high as 80.6 per cent in 1999 and 57.0 per cent in years 2000 and 2001 respectively. With that of the state put at 33.2 per cent on the average, that for local government was 12.1 per cent. That of local government was as low as 5.1 per cent in 1999 and 8.8 per cent in 2002. However, it must be emphasised that the above picture must have been due to the revenue structure of each of the tiers. This picture is also presented in figure 5 below.

#### 4.6 Summary of Fiscal Balance/Imbalance of the Selected States

The summary of fiscal balance/imbalance was also drawn for the selected states as presented in Table 9. From the Table, it is clear that only Delta State was able to generate internally an average of 15.3 per cent of the required fund to meet the total expenditure between 1999 and 2003 (for which data were available). All other states were below this on the average. That of Bauchi state was as low as 4.7 per cent, and 7.9 per cent for Benue on the average. Specifically, it was as low as 1.9 per cent for Benue state and 3.5 per cent for Enugu state in year 2000.

The conduct of IGFR has so far generated series of controversy among the three vertical organs of government as well as between the government and ethnic groups from oil rich areas because of federal government's domineering influence. Such an influence is evident in the way the federal government has been determining single handedly the distribution of tax jurisdiction among the vertical organs, what accrues to the Federation Account, the relative share of each tier of government from it, the set of criteria to apply in sharing it, what is actually disbursed to each unit of government and when to even disburse it. Apart from this, the federal government effects changes to the revenue allocation system at will and deducts (at source) outstanding loans of any unit or such other payments as it deems fit without recourse to the states and local governments.

### 5. The implications of the Failing IGFR for Nigerian Federation

The centralized nature of inter-governmental fiscal character has had some negative impacts on the political system of Nigeria and on the whole it has continued to threaten the sustenance of its existence as a federation.

In the first place, centralization of fiscal power encourages fiscal dependence. States and local governments are therefore prevented from enjoying the deserved principle of self-determination that is primary to the practice of

federalism. This is against the fact that these states and local governments are created to enable people to be free and independent and in addition have access to rights and privileges within the state to which they belong. Hardly can any state or local government plan on its own to prosecute a project without federal financial support by way of allocation (Adesopo, et.al, 2004). The state and local governments, by way of extension, become dependent on the federal government to the extent that they are no longer conscious of revenue generation. Rather, they compete for revenue sharing to the extent that it has been generating conflict of interest between the federal and other tiers of government and even among the states and geo-political zones.

Section 15 of the 1999 constitution emphasizes the encouragement of national integration as one of the political objectives of the Nigerian government. This requires that the state shall foster the feeling of belonging and involvement among the various peoples of the federation. Section 17(1) of the same constitution states that the state social order is founded on ideals of Freedom, Equality and Justice. These objectives may be unachievable as a result of the centralization of the fiscal power as fiscal power is primary to national integration. In addition, the centralization will lead, as it has always been, to continued agitation for state or local government as what gets to an area from the central pool account depends on the number of states or local governments carved out of the area. Above all, it will lead to governmental friction and ethnic fragmentation that are dangerous to the sustenance of Nigerian federation.

Next to this is the fact that it impedes economic viability of most of the states and local governments in terms of human, material and financial resources, and thereby running counter of one of the pre-conditions for state or local government creation. Only a handful number of states like Lagos, Rivers and Kano can claim to meet this condition under the present pattern of fiscal relationship as almost all of them are depending in varying degrees on the federal allocation (Adesopo, *et al*, *ibid*). This pattern further negates the relevance of state and local government creation to citizens. They are created to bring government and spending decisions closer to people/tax payers and to promote efficiency in decision making.

It has led to constant complaints about and agitation for fundamental restructuring of the fiscal system but with particular reference to the review of revenue sharing formula by the constituent units as it is believed that the present pattern cannot achieve the equalization effect across states and local governments. This has led to the growth of ethnic militancy and violent conflicts because of mutual suspicion and fear of domination and marginalisation among ethnic nationalities. In other words, the absolute dependence on revenue being transferred from the centre has been cited as a source of deep political contention among all governments and segments of the country.

The fiscal centralization in Nigeria will continue to affect Nigerian economy as it will remain monolithic partly because of this centralization. Presently the federal government monopolises the power to explore and develop natural resources existing within the shores of Nigeria. This has however made oil the only major source of revenue for Nigeria while other natural resources that the two lower tiers of government can tap, develop and export for revenue generation are lying fallow and thereby making Nigerian economy a “one-line” economy. Apart from the fact that there is uncertainty of the oil revenue being an exhaustible natural resource, the revenue being generated from it is due to its present importance in the world market which may not remain so for life especially now that the major importers/consumers of Nigeria’s crude oil are in search of alternatives to oil. This reminds us of a point in the history of Nigeria when the economy was depending only on agricultural products like Cotton, Cocoa, Groundnut, Oil palm and Rubber, today it is crude oil and only God knows what it will be tomorrow.

The centralized fiscal power has increased the struggle for the control of federal power and influence among the ethnic groups and in effect leading to the overheating and instability of the polity. The major ethnic groups are always desperate in producing the President because the direction of the flow of national wealth is often dictated by the sway of political power. This is especially when inter-governmental fiscal relation as a whole in Nigeria is said to be lacking “ethos of justice” and consequently leading to the struggle for power at the centre (Adesina, 1998:234).

Further to this, it contributes to the emergence of autocratic and corrupt federal government as it has more than enough fund ‘to play with’ and at times not accounting for large portions of the revenue. This has however generated lack of confidence in the federal government and thereby making national unity more fragile.

It has also allowed the federal government, until it was outlawed by the Supreme Court’s judgment on Resource control suit in April 2002, to establish first-line charges and dedicated accounts against the federation account with which it has financed a wide range of activities that would have ordinarily been left for state and local government or even the private sector. These include concurrent obligations in areas like education, health,

agriculture and social welfare. The effect of this, as observed by many scholars, is that no tier of government takes full responsibility for functions like primary education, primary health care, etc.

## 6. Concluding Remarks and Recommendations

Apparently, states and local governments are created to bring spending decisions closer to the tax payers. This presupposes that public expenditures would be financed by local taxes. Apart from this, efficiency in decision making is assumed to be more promoted and guaranteed. These explain why the Nigeria's three-tier federal structure has saddled each level of government with responsibilities. These responsibilities are performed by almost only transfers from federal government and thereby not allowing them to enjoy the deserved political/administrative autonomy because there cannot be autonomy without fiscal autonomy. This pattern of relationship is better described as not being in tune with a "true" federal system as such transfers increase the separation of spending and taxing decisions and in a way inducing serious incentive problems as it can only drive waste. Accordingly, it is pertinent to offer some recommendations aimed at enthroning a true federal structure in Nigeria, if only to reduce the disaffection resulting from a centralized inter-governmental fiscal system.

First, if the present fiscal structure should remain, there is need to review the vertical sharing formula such that it can reflect a decentralized fiscal system. With this, the objective of bringing government closer to people through creation of states and local governments can be realized. The formula should be reviewed such that states and local governments can have adequate resources that are commensurate with their responsibilities to be able to deliver and function effectively. Next is the need to solve the problem of reallocation and diversion of the amount accruing to the State Joint Local Government Account (SJLGA) by the supervising states as this has greatly contributed to the financial incapacitation of the local government. This reallocation of the SJLGA has been possible because of the treatment of local government as an appendage of the supervising state rather than an independent tier of government. The local government should be given the deserved recognition as an independent tier of government by enjoying direct allocation from the federal government.

Second, there is need to review the horizontal sharing formula by establishing good, dependable and verifiable statistical base for the principles currently in use if only to reduce tension. Out of all the horizontal revenue sharing principles, it is only "Equality" that is not controversial in terms of statistical base. That is, it is the only one that is not being based on some statistical data and all of which have been faulted one way or the other.

Third, since the present IGFR encourages "fiscal dependency", this must be broken totally, especially through diversification. This can be done through intensive drive for independent revenue generation, which works best under the derivation principle that provides the most rational, efficient and equitable principle for revenue decentralization in a federal political system. This will solve the serious incentive problems associating with a centralized and transfer-based system and even effectively tackle the problem of high level of mistrust between the different tiers of government, especially over oil revenues. In addition, it will tackle the problem of fiscal indiscipline at all levels of government. This can be done by allowing and encouraging each state to tap the natural resources in its area if only to move the economy forward from its present static position. This is being suggested because if states and local governments are only interested in sharing money at the end of every month without any considerable challenge to generate reasonable amount of revenue of their own will not be in the best interest of Nigeria economy. Naturally, revenue transfer in a federation is supposed to be supplemental rather than a primary source of revenue as the situation in Nigeria.

Closely related to this is the need to re-examine and modify the assignment of tax jurisdictions among the three vertical organs in order to improve the fiscal capacities of the lower levels of government. Also, states and local governments should be granted the power to set rates in some cases in addition to the existing administrative responsibilities. This will enable them to adjust rates in response to their economic circumstances and revenue needs. The present arrangement in which the federal government is assigned the major tax sources should be reconsidered. The principle of optimal revenue structure which holds that tax legislation could be centralized but with possible participation of the lower levels of government should apply as it has been suggested by several scholars. Some of the taxes presently under the purview of the local government can be placed under the state government to reduce tax evasion and avoidance and the proceeds there from be given to local government after deducting an agreed percentage to cover collection and administrative cost. A good example here is the property tax.

Arising from the need for diversification, government must embark on policy reforms targeting institution and capacity building especially with respect to revenue mobilization and procurement systems. The National Revenue Mobilisation, Allocation and Fiscal Commission (NRMAFC), for instance, should be alive to its

responsibilities of revenue mobilization as it is empowered to regularly demand relevant information, data or returns from federal government's revenue collecting agencies like the Nigerian National Petroleum Corporation (NNPC), Nigerian Customs Service (NCS), Central Bank of Nigeria (CBN), Federal Inland Revenue Service (FIRS), Department of Petroleum Resources (DPR) and Federal Ministry of Finance (FMF). It must also look into other areas that can fetch revenue into the Federation Account. Examples here include interest earned from foreign exchange rate by the CBN, the Nigerian Port Authority (NPA), looted funds recovered by Economic and Financial Crimes Commission (EFCC) and other anti-corruption agencies, Nigerian Communication Commission (NCC), and interests and dividends of investment by the Federation from Ministry of Finance Incorporated (MOFI). Further to this, any revenue collecting agency that is caught short-changing the Federation Account by not declaring all the revenue accrued to it should be sanctioned. The NRMAFC should also find a way of including Education tax and such others in the Federation Account for simplicity and transparency.

There is the need to re-examine and restructure the existing expenditure responsibilities of each tier of government as suggested severally by different scholars. From fiscal history of Nigeria, the concern of governments has been towards the modification of revenue sharing formula only forgetting the fact that nothing can come out of it if expenditure responsibilities are not revisited. It will be reasonable calling for a public debate on expenditure and tax revenue assignment in Nigeria as it has also been suggested severally by some scholars. This will assist in clearly demarcating the exclusive responsibilities for each tier of government vis-à-vis the fiscal power.

Lastly, there is need to enforce the allocation of 10 percent state's internally generated revenue to local governments under its jurisdiction. This is necessary as many states usually default and thereby further expanding the fiscal incapability of the local governments. The federal government can even establish an agency to monitor this and stipulate stiff penalty to any state that defaults. For instance, the federal government may find a way of deducting the outstanding amount or an agreed percentage of the defaulting state's statutory allocation. The States' Houses of Assembly should also enforce the compliance with this law.

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Table 1. Federation account operation (May 1999- May 2007) (₦ Million)

Year	Total Revenue	Federal	%	State	%	Local	%	Special Fund	%
1999	461,579.66	187,596.25	40.6	103,936.87	22.5	86,771.65	18.8	83,274.89	18.1
2000	1,368,658.32	572,887.69	41.9	367,388.65	26.8	201,370.34	14.7	227,011.64	16.6
2001	1,523,475.90	693,901.11	45.5	429,330.26	28.2	312,548.83	20.5	87,695.71	5.8
2002	1,666,414.06	866,799.04	52.0	443,265.40	26.6	338,896.28	20.3	17,453.34	1.1
2003	1,923,310.43	976,809.14	50.8	569,833.97	29.6	376,667.32	19.6	-	
2004	2,551,376.01	1,206,899.43	47.3	825,299.03	32.3	519,177.55	20.4	-	
2005	3,025,576.16	1,325,446.64	43.8	1,086,294.17	35.9	613,835.35	20.3	-	
2006	3,791,369.69	1,727,671.14	45.6	1,325,105.81	34.9	738,592.74	19.5	-	
2007	1,731,531.97	784,909.48	45.3	614,584.16	35.5	332,038.33	19.2	-	

Source: Office of Accountant-General of the Federation (Abuja)

**Foot Note:**

- (1) The percentages are as calculated by the researcher.

- (2) Special Fund Account ceased to exist with effect from June 2002. This resulted in restructuring of revenue sharing in Nigeria. With effect from that date, the federal government's share is used to service its CRF account, FCT, Development of Natural resources, stabilization fund and Derivation & Ecology.
- (3) SF was taking care of the following before June 2002: FCT (1%), General Ecology (2% of Total revenue), Statutory Stabilization (0.5% of total revenue), OMPADEC (3.0% of total revenue), Residual transfers from stabilization, Transfers, to Federation Stabilization a/c, Transfers to Federation reserve account, Amount set aside for National judicial Council, Amount retained in the account, Import duty refund, VAT Bonus, Amount for PPT issue, and settlement of outstanding debt to CRF.

Table 2. Current revenue structure of federal government (₦ Million)

Year	Total Revenue	Statutory Allocation (FAAC)		Independent Revenue		Share of Reserve A/C		Share of GSM Proceeds		Draw-down from Stab-a/c		Capital Transfer		Education Tax	
			%		%		%		%		%		%		%
1999	624,185.45	187,596.25	30.1	11,507.30	1.8	37,510.40	6.0	-	-	-	-	-	-	3,621.70	0.6
2000	659,619.99	572,887.69	86.9	38,061.80	6.0	-	-	-	-	-	-	-	-	-	-
2001	946,861.31	693,901.11	73.3	44,405.20	4.7	117,008.00	12.4	37,800.70	3.9	-	-	-	-	-	-
2002	1,128,627.14	866,799.04	76.8	68,134.20	6.0	-	-	-	-	-	52,114.10	4.6	-	-	-
2003	1,091,009.14	976,809.14	89.5	54,200.00	5.0	53,300.00	4.9	-	-	-	-	-	-	-	-
2004	1,288,799.43	1,206,899.43	93.6	58,900.00	4.6	23,000.00	1.8	-	-	-	-	-	-	-	-
2005	1,722,346.64	1,325,446.64	77.0	212,100.00	12.3	184,800.00	10.7	-	-	-	-	-	-	-	-
2006	2,145,071.14	1,727,671.14	80.5	33,300.00*	1.6	320,800.00*	15.0	-	-	-	-	-	-	-	-
2007	784,909.48	784,909.48	N.N	N.A		N.A		N.A		N.A		N.A		N.A	

Year	Recovery of Loan from States		Custom Levies		Share of Fertilizer Subsidy		PSTF Revenue		Privatization Proceeds		First Charges Deductions		Others	
		%		%		%		%		%		%		%
1999	-		8,569.20	1.4	-		9,800.00	1.6	-		358,399.60	57.4	7,181.00	1.1
2000	-		-		-		-		18,103.60	2.7	-		30,566.90	4.4
2001	-		-		-		-		-		-		53,737.30	5.7
2002	-		-		10,745.60	1.0	-		19,697.80	1.7	110,599.40	9.8	537.00	0.1
2003	100.00	0.0	-		-		-		-		-		6,600.00	0.6
2004	-		-		-		-		-		-		-	
2005	-		-		-		-		-		-		-	
2006	-		-		-		-		29,500.00*	1.4	-		33,800.00*	1.6
2007	N.A		N.A		N.A		N.A		N.A		N.A		N.A	

**Sources:** (i) Extracts from the information retrieved from the website of the Federal Ministry of Finance ([www.fmf.gov.ng](http://www.fmf.gov.ng))

(ii) CBN Annual Reports and Statement of Accounts for the year ended 31<sup>st</sup> December (various years).

**Foot Notes**

- (i) The column for statutory allocation is as sourced from the Federal Ministry of Finance and it comprises of the statutory allocation, share of excess crude oil proceeds, share of VAT proceeds, and in some cases share of special reserve account.
- (ii) The values in the columns for independent revenue, GSM proceeds, share of AFEM account, Draw-down from stabilization account, capital transfer, education tax, loan recovery from states, custom levies, PSTF revenue, privatization proceeds, first charges deductions, and others are as published by Central Bank of Nigeria (CBN).
- (i) Others include FIRS recovery.
- (ii) From year 2000, all first charges, including external debt components, are charged to the federation account. However, the Supreme Court judgement of April 2002 ordered the first charges to be proportionately charged to the various tiers of government.
- (iii) The percentages are as calculated by the Researcher.
- (iv) N. A. means "Not Available".
- (v) N. N. means "Not Necessary". (vi) \* means provisional (as indicated in CBN annual reports).

Table 3. Current revenue structure of states and FCT (₦ Million)

Year	Total Revenue	Statutory Allocation (FAAC)	%	Internal Revenue	%	Grants and Others	%	Stabilization Fund Receipts	%
1999	128,193.20	103,936.87	81.1	19,896.90	15.5	3,821.83	3.0	537.60	0.5
2000	444,246.95	367,388.65	83.0	37,788.50	8.5	33,289.30	7.5	5,780.50	1.0
2001	553,871.56	429,330.26	77.5	59,416.00	10.7	58,064.40	10.5	7,060.90	1.3
2002	672,156.40	443,265.40	66.0	89,606.90	13.3	129,714.40	19.3	9,569.70	1.4
2003	823,763.57	569,833.97	69.2	118,753.50	14.4	134,179.30	16.3	996.80	0.1
2004	1,065,839.13	825,299.03	77.4	134,195.30	12.6	104,344.80	9.8	2,000.00	0.2
2005	1,357,252.57	1,086,294.17	80.0	122,737.80	9.0	137,445.30	10.1	10,775.30	0.8
2006	1,587,543.01	1,325,105.81	83.5	125,228.90*	7.9	125,323.10*	8.0	11,885.20*	0.7
2007	614,584.16	614,584.16		N.A		N.A		N.A	

- Sources:** (i) Statutory allocation column is as extracted from the information retrieved from the website of the Federal Ministry of Finance ([www.fmf.gov.ng](http://www.fmf.gov.ng))
- (ii) Internal Revenue, Grants and Others, and Stabilization Fund Receipts columns are as published in Central Bank of Nigeria Annual Report and Statement of Accounts for various years.

- Foot Note:** (i) The statutory allocation includes share from federation account, VAT, 13% share of Derivation (for states entitling to it), crude oil excess proceeds, special reserve account, GSM proceeds and other additional allocations under the auspices of the Federation Account Allocation Committee (FAAC).
- (ii) Values for 1999 were pro-rated to consider only June to December 1999 (to exclude January to May that fell under the military government).
- (iii) \* indicates "provisional" as emphasized by Central Bank of Nigeria.

Table 4. Current revenue structure of local governments (₦' Million)

Year	Total Revenue	Statutory Allocation (FAAC)	%	Internal Revenue	%	Grants and Others	%	Stabilization Fund and Gen. Ecology	%	State Allocation	%
1999	91,071.11	86,771.65	95.3	2,732.22	3.0	706.18	0.8	616.18	0.7	244.88	0.2
2000	220,749.54	201,370.34	91.2	7,152.90	3.2	4,904.70	2.2	5,398.50	2.4	1,923.10	1.0
2001	335,468.72	312,548.83	93.2	6,020.40	1.8	2,320.72	0.7	12,980.17	3.8	1,598.60	0.5
2002	363,423.48	338,896.28	93.3	10,420.90	2.9	2,537.07	0.7	9,896.97	2.7	1,672.26	0.5
2003	415,782.92	376,667.32	90.6	20,175.50	4.9	12,210.00	2.9	4,610.30	1.1	2,119.80	0.5
2004	565,831.20	519,177.55	91.8	22,407.75	4.0	14,537.50	2.6	6,082.70	1.0	3,625.70	0.6
2005	662,260.65	613,835.35	92.7	24,042.50	3.6	15,101.60	2.3	6,037.30	0.9	3,243.90	0.5
2006	786,132.24	738,592.74	94.0	23,225.10*	3.0	14,819.60*	1.9	6,060.00*	0.8	3,434.80*	0.4
2007	332,038.33	332,038.33		N.A		N.A		N.A		N.A	

- Sources:** (i) Statutory allocation column is as extracted from the information retrieved from the website of the Federal Ministry of Finance ([www.fmf.gov.ng](http://www.fmf.gov.ng))  
(ii) Internal Revenue, Grants and others, Stabilization Fund and General Ecology, and State Allocation Columns are as published by CBN.

- Foot Note:** (i) Statutory allocation includes allocation from federation account, VAT, crude oil excess proceeds  
(ii) Values for 1999 were pro-rated to consider only June – December 1999 (to exclude January – May that fell under the military government).  
(iii) \* means “provisional” as indicated by Central Bank of Nigeria.

Table 5. Total revenue decentralisation ratio (₦ Million)

Year	Total Revenue	Federal Government	%	State/FCT	%	Local Government	%
1999	843,449.76	624,185.45	74.0	128,193.20	15.2	91,071.11	10.8
2000	1,324,616.48	659,619.99	49.8	444,246.95	33.5	220,749.54	16.7
2001	1,836,201.59	946,861.31	51.6	553,871.56	30.2	335,468.72	18.3
2002	2,164,207.02	1,128,627.14	52.1	672,156.40	31.1	363,423.48	16.8
2003	2,330,555.63	1,091,009.14	46.8	823,763.57	35.3	415,782.92	17.8
2004	2,920,469.76	1,288,799.43	44.1	1,065,839.13	36.5	565,831.20	19.4
2005	3,747,602.13	1,722,346.64	46.0	1,357,252.57	36.2	668,002.92	17.8
2006	3,791,369.69	1,727,671.14	45.6	1,325,105.81	35.0	738,592.74	19.5
2007*	1,731,531.97	784,909.48	45.3	614,584.16	35.5	332,038.33	19.2

**Source:** Extracted from tables 2, 3, and 4.

**Foot Note:** \* The values for 2007 were calculated up to May 2007.

Table 6. States and FCT revenue sources: Federal/Internal Sources Ratio (%) (₦ Million)

Year	Total Revenue	Federal Sources	(%)	Internal/Independent Sources	(%)
1999	128,193.20	108,296.30	84.5	19,896.90	15.5
2000	444,246.95	406,458.45	91.5	37,788.50	8.5
2001	553,871.56	494,455.56	89.3	59,416.00	10.7
2002	672,156.40	582,549.50	86.7	89,606.90	13.3
2003	823,763.57	705,010.07	85.6	118,753.50	14.4
2004	1,065,839.13	931,643.83	87.4	134,195.30	12.6
2005	1,357,252.57	1,234,514.77	91.0	122,737.80	9.0
2006	1,587,543.01	1,462,314.11	92.1	125,228.90	7.9
2007	614,584.16	614,584.16		N.A	

**Source:** Extracted from Table 3 and percentages calculated by the researcher.

**Foot Note:** Federal Sources column for 2007 reflects only the sum of statutory allocations as information on states and FCT internal/independent sources were not available as at the time of this study.

Table 7. Local government revenue sources: External/Internal Sources Ratio (%) (₦ Million)

Year	Total Revenue	Federal Sources	(%)	State Sources	(%)	Internal Sources	(%)
1999	91,071.11	88,094.01	96.8	244.88	0.2	2,732.22	3.0
2000	220,749.54	211,673.54	95.8	1,923.10	1.0	7,152.90	3.2
2001	335,468.72	327,849.72	97.7	1,598.60	0.5	6,020.40	1.8
2002	363,423.48	351,330.32	96.6	1,672.26	0.5	10,420.90	2.9
2003	415,782.92	393,487.62	94.6	2,119.80	0.5	20,175.50	4.9
2004	565,831.20	539,797.75	95.4	3,625.70	0.6	22,407.75	4.0
2005	662,260.65	634,974.25	95.9	3,926.92	0.5	24,042.50	3.6
2006	786,132.24	759,472.34	96.6	3,243.90	0.4	23,225.10	3.0
2007	332,038.33	332,038.33		3,434.80		N.A.	

**Source:** Extracted from Table 4 and percentages calculated by the researcher.

**Foot Note:** Federal sources column for 2007 reflects only the sum of statutory allocations as information on state and internal sources were not available as at the time of this study.

Table 8. General expenditure decentralisation ratio (1999–2007) (₦ Million)

Year	Total Expenditure	Federal	%	State	%	Local Government	%
1999	685,969.32	552,819.17	80.6	97,939.39	14.3	35,210.76	5.1
2000	1,214,594.80	701,059.40	57.7	359,670.60	29.6	153,864.80	12.7
2001	1,786,356.50	1,018,025.60	57.0	596,956.40	33.4	171,374.50	9.6
2002	1,912,512.70	1,018,155.30	53.2	724,537.20	38.0	169,820.20	8.8
2003	2,508,868.80	1,225,965.90	48.9	921,159.70	36.7	361,713.20	14.4
2004	3,012,307.60	1,426,200.00	47.4	1,125,057.00	37.3	461,050.60	15.3
2005	3,888,663.20	1,822,100.00	46.9	1,478,585.40	38.0	587,977.80	15.1
2006	4,190,634.60	1,938,000.00	46.2	1,586,796.60	37.9	665,838.00	
2007	N.A.	N.A.		N.A.		N.A.	

**Source:** CBN Annual Report and Statement of Accounts for various years.

Table 9. Summary of fiscal balance/imbalance of the selected states (₦' Million)

Year	Internal/Independent Revenue						Expenditure Share					
	Benue	Bauchi	Kaduna	Enugu	Delta	Ondo	Benue	Bauchi	Kaduna	Enugu	Delta	Ondo
1999	414.05	65.10	697.30	394.80	1410.56	520.10	2,650.55	2,002.47	3,087.12	1,989.63	4,168.21	2,299.38
2000	124.10	205.00	955.00	201.00	2,993.00	753.40	6,413.00	8,188.70	9,648.00	5,668.90	32,050.90	7,359.70
2001	1,606.80	877.30	1,723.20	2,185.20	2,185.20	1,046.70	12,581.00	13,321.10	15,650.10	11,806.20	57,174.40	21,215.40
2002	744.80	697.20	1,307.20	1,423.70	5,963.50	1,126.30	14,428.40	11,940.00	24,565.50	12,306.70	62,948.10	20,072.80
2003	650.30	728.20	7,096.40	1,859.60	6,257.30	3,087.10	16,376.40	13,362.70	39,959.10	17,688.30	67,148.60	38,834.40
2004	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2005	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2006	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2007	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Year	Surplus/Deficiency						Expenditure/Rev. Ratio (%)					
	Benue	Bauchi	Kaduna	Enugu	Delta	Ondo	Benue	Bauchi	Kaduna	Enugu	Delta	Ondo
1999	(2,236.50)	(1,937.37)	(2,389.82)	(1,594.83)	(2,757.65)	(1,779.28)	15.6	3.3	22.6	19.8	33.8	22.6
2000	(6,288.90)	(7,983.70)	(8,693.00)	(5,467.90)	(29,057.90)	(6,606.30)	1.9	2.5	9.9	3.5	9.3	10.2
2001	(10,974.20)	(12,443.80)	(13,926.90)	(9,621.00)	(48,953.40)	(20,168.70)	12.8	6.6	11.0	18.5	14.4	4.9
2002	(13,683.60)	(11,242.80)	(23,258.30)	(10,883.60)	(56,984.60)	(18,946.50)	5.2	5.8	5.3	11.6	9.5	5.6
2003	(15,726.10)	(12,634.50)	(32,862.70)	(15,828.70)	(60,891.30)	(35,747.30)	4.0	5.4	17.8	10.5	9.3	7.9
2004	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2005	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2006	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2007	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
						Average	7.9	4.7	13.3	12.8	15.3	10.2

Source: Both the Internal Revenue and Expenditure columns were sourced from CBN Annual Report and Statement of Accounts for various years.

Foot Note

- (1) Values for year 1999 were pro-rated to exclude the military regime of January – May 1999.
- (2) NA means Not Available.
- (3) The values in brackets indicate negative values (i.e. deficiency).
- (4) Surplus/Deficiency columns were as calculated by the researcher (it is the difference between the internal/independent revenue and expenditure share).
- (5) Expenditure/Revenue ratio expressed in percentages are as calculated by the Researcher.

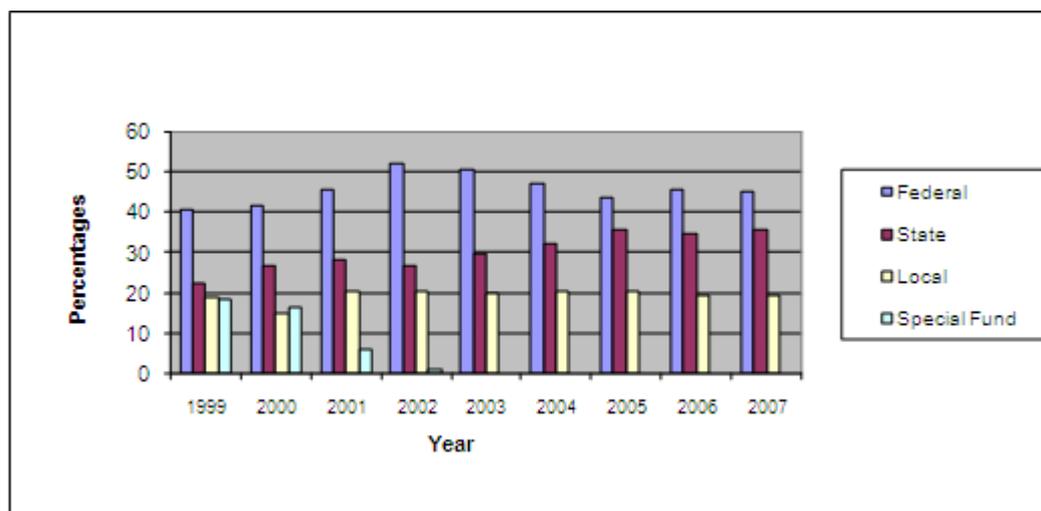


Figure 1. Federation Account Operation

Source: Drawn from Table 1

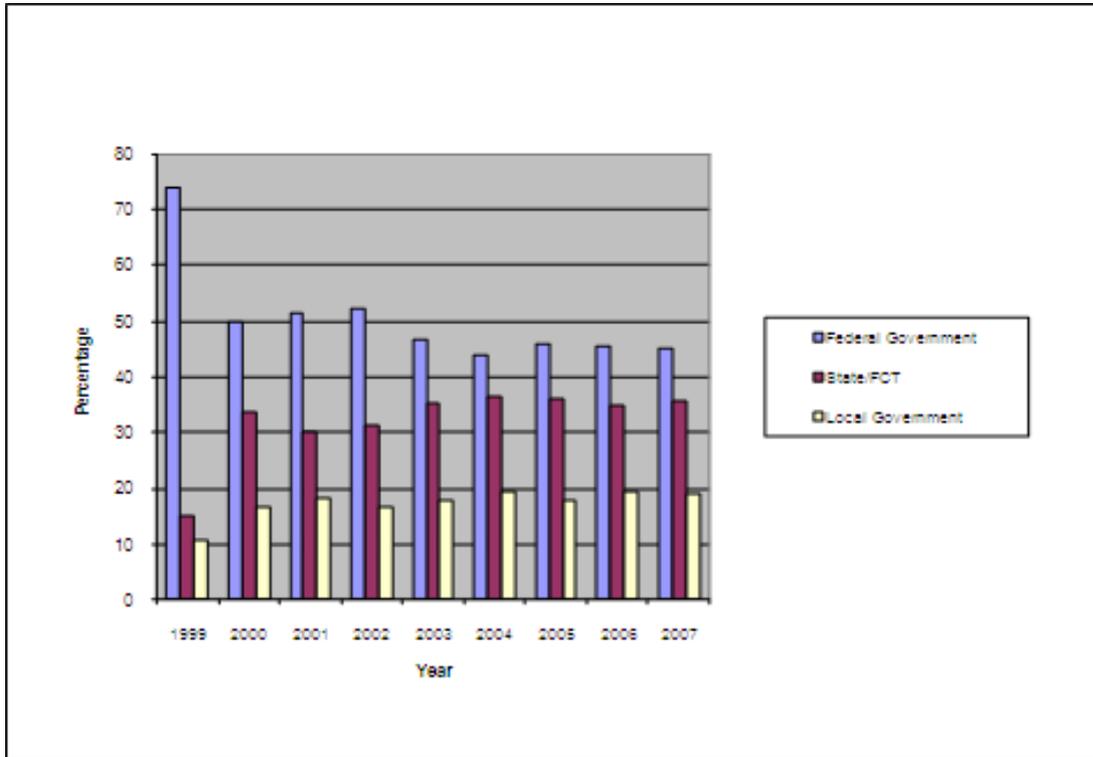


Figure 2. Total Revenue Decentralisation Ratio

Source: Drawn from information in Table 5

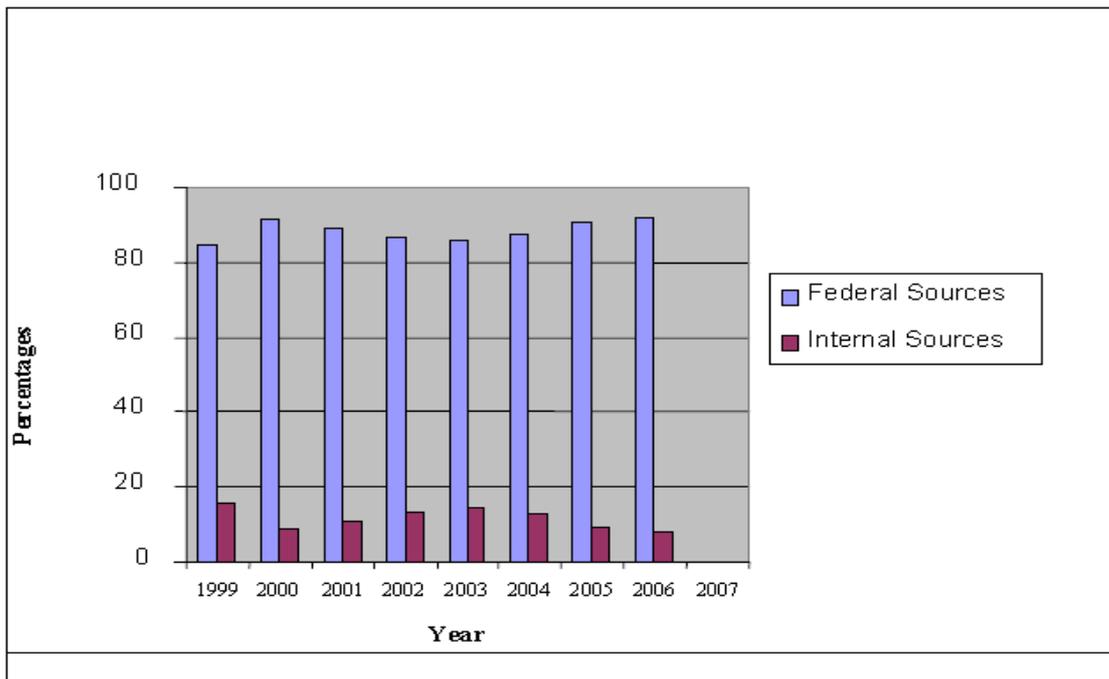


Figure 3. States and FCT Revenue Sources: Federal/Internal Sources Ratio (%)

Source: Drawn from Table 6.

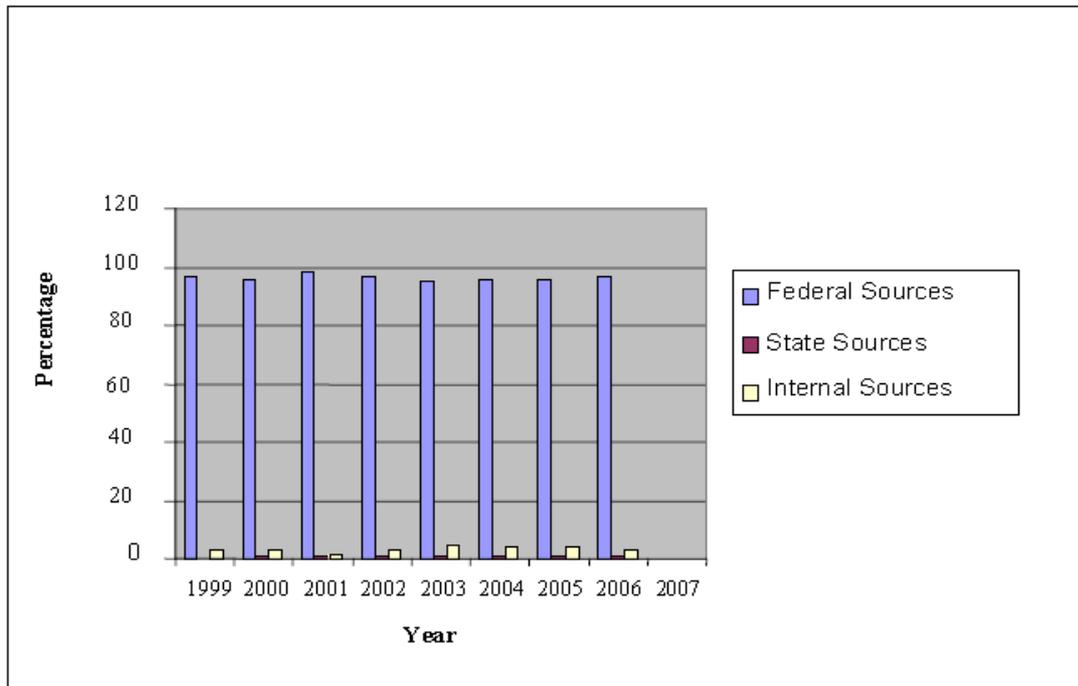


Figure 4. Local Government Revenue Sources: External/Internal Sources Ratio (%)

Source: Drawn from Table 7

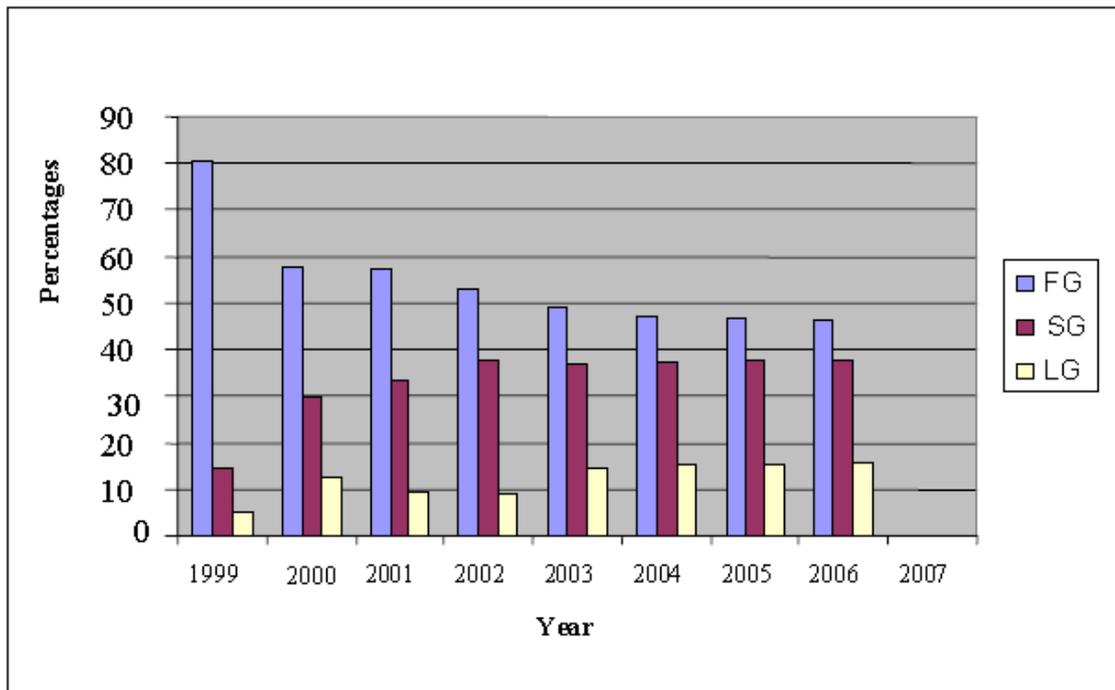


Figure 5. General Expenditure Decentralisation Ratio

Source: Drawn from Table 8.