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Fiscal Federalism in Nigeria: A Contemporary Revew

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ABSTRACT Fiscal problem is the most severe problem facing public institutions in Nigeria particularly the local government. This problem had been provoked by a number of factors including "over dependence" on statutory allocations from both the state and federal governments; deliberate tax evation by local citizenry, creation of non-viable local government areas, differences in the status of local governments in terms of ruralness and urbanism; "inadequate revenue and restricted fiscal jurisdiction". These factors and their attendants' problems, implications and effects are examined within the purview of fiscal federalism in this paper in line with the provision of the 1999 Federal Republic of Nigeria's constitution. We went further to argue that for a financially healthy local government to exist, there is need for the allocation of responsibilities and functions in accordance with their taxing power and ability to internally generate fund. The constitutional provision that recognizes local governments' power in this regard must give them full freedom to operate and this must be well guaranteed and adequately protected. These, coupled with the need to review revenue sharing formula, granting of fiscal autonomy, fiscal discipline as well as making local government responsive, responsible and accountable to the people will, in our view, set our local government free from the manacle of fiscal stress promoted and strengthened by the 1999 constitution of the Federal Republic of Nigeria.

INTRODUCTION

Within the parameters of public administration, like other fields of calling that constitute the disciplinary anatomy of the social sciences, it has not been all that easy to attain analytical unanimity on most, if not all issues that require the attention of scholars or researchers by ways of research for the betterment of mankind.

One of such issues is the financing of public organisations or institutions within the public sector of the economy. Infact, the issue of finance is very paramount in any organisation be it private, public or quasi-public. This is always the case in all polities of the world irrespective of the system of government, ideological beliefs or persuasion.

This is particularly so, because, finance is the lifeblood that permeates the anatomy and physiological fibres of all institutions be it in the private or public sector of the political economy. It actually dictates the developmental trends, shapes or the real topography of the political landscape of all polities within the global community. Its operational tool- (money) – has been variously, in euphemistic context, described as the "root of all evils" on the one hand, and, as the "conqueror of all evils" on the other hand, meaning, that, whatever money could not do, will be permanently left undone.

The eulogies of money as the principal components of finance are not mere flukes but real promoters of its indispensability to the economic survival of mankind and its multiplier effects on other aspects of man's systemic existence, a combination of which calls for its proper sourcing and management particularly within the public sector of the political economy where Government as the employer and provider of public goods and services holds the sway in terms of the authoritative allocation(s) of the scarce societal values and determination of who gets what? When? where? how? and why? particularly, at the local level.

Given the foregoing, and, the fact that, the goods and services that government provide are not costless, it is innocuous to argue that the issue of public finance, particularly, as it concerns the healthy relation of revenue with expenditure is crucial to the success or otherwise of any government and the prosecution of the *raison-detre* of its existence within any polity of the world.

This relation of revenue with expenditure, in economic parlance, connotes fiscal policy and, it refers to the use by government of tax and spending practice to influence economic activity aimed at avoiding fiscal stress or fiscal crisis through a balanced budget and its neutral effects on total spending. Infact, fiscal policy as the sociological foundation of government or state finances is usually implemented by the government either through built-in stabilizers or through discretionary changes in taxes and/or expenditure. Its main concerns are "to discover the principles governing the volume and allocation of state finances and expenditures and, the distributions of the tax burden among various economic class" within the political system/ economy.

It should be stated at this juncture that we are not unaware of the various disputations which the issue of fiscal politics had generated since the major work of the German Marxist Rudolph Goldshied, - (founder of the contemporary science of fiscal politics) – appeared in the second decade of the twentieth century and, since the work of Joseph Schumpter, Ralph Turvey, Richard Mustgrave and the Keynesian Ersey Domar to mention only a few[1]. However, the disputations are not really germane to our focus in this paper. Instead, we are concerned with the analytical by-product of the disputations, which among others had shown that:

> as government expenditures come to constitute a larger and larger share of total spending in… capitalist countries, economic theorists and, (Government or Government functionaries) who ignore the impact of the state budget do so at their own peril[2].

Public finance as a subject matter of inquiry and, its relevance to the provision of national and local public goods had, as could be discerned from the argument above gone through various intellectual metamorphoses over the years. In the period of the classical economists such as Adam Smith, J.S. Mill and Richardo, portion of write-ups on economic theory were dedicated to limited discussion on public expenditure, taxation and public debts. Some of these write-ups emphasized the effects of various taxes and in the case of Adam Smith, some principles of taxation, vis-à-vis the issue of public goods at all levels of the political system[1,2]. Infact, as far as the classical economists are concerned, we can say that, there was the recognition of the division of the subject matter of public finance into its revenue, expenditure and debt aspects although in a rudimentary form within most polities of the global community.

Neo-classical economists of the Alfred Marshal era played down the discussion of public finance as part of the mainstream of economic theory thereby necessitating the development of an independent theory of public finance by the later generation of economists among whom were Bastable and Dalton who published the pioneering books on public finance in 1892 and 1922 respectively[1,2,3,4]. Dalton in his book defined public finance as a field of study which is concerned with the income and expenditure of public authorities and with the adjustment of one to the other in the course of the determinant of who gets what? When? where? Why? and how?

The major difference between these books of public fiancé and the classical textbooks on economic theory is the increased recognition of the right of the expenditure as well as the revenue sides of public authorities to appear in any treatment of the subject of finance of, and by government.

However, most of these textbooks concentrated mainly in knowing specifically the effect of various taxes and expenditures but, due to the advent of Lord Keynes general theory and Pigou's public finance, it has now been fairly recognized that the discussion of the effect of a particular taxes and government expenditure is only part of the subject matter of public finance and that any concrete treatment must include a full discussion of the influence of government and its fiscal operations on the level of overall activities and employment. This is why it has been noted that, government is a unit and must be considered as the subject matter of the public finance. It equally explains why it has been argued that public finance studies the economic activities of the government as a unit, and their effects. The public sector is that sector of national activities that represent the government as against the private sector[2,3,4]. This sector narrowly defined, may include only the executive, legislature and the judicial arms of the government at the horizontal level with the armed forces, police, paramilitary and other administrative arm on one hand, and, at the vertical level on the other hand.

In modern times, there are many ways in which one can set out the contents of the subject matter of public finance. While it can be safely said that it involves both micro and macro aspects and that the micro element in turn involves both matters of resource allocation and of the distribution of income, consumption and wealth, one can also say that it embraces consideration of public expenditure, public revenue as well as the proper and efficient control of public funds. Infact, the proper control of public fund will be efficiently done through proper budgeting and implementation by the policy makers in formulating the appropriate policies in this regards.

Using the foregoing as a premise, one will not be wrong to say and conclude that public policies formulated would not be meaningful, effective and efficient if the financial resources needed to transform them into concrete and practical realities are not available or made available to the respective tiers of government or, if the lower tiers (which in our case is the local government) are continuously made to be financially dependent in contemptuous disregard for the constitutional stipulations and allocation of functions among the three tiers or vertical organs of government.

The combination of the foregoing, shows that, regardless of the geo-political location of the country within the global political community, the issue of finance relative to its sourcing and prudent management vis-a-vis the functional performance of public institutions cannot be taken for granted because, as once noted: "whether it is private or public, no organisation can function effectively without adequate finance"[5]. Thus, the issue of finance particularly as it concerns how local government/ officials can find "less expensive ways to provide services"[3] continues to be problematic. This has been particularly so looking at the ever-increasing rate of demand on government amidst constant reduction in the payment of taxes by the citizenry coupled with cutbacks in financing by federal government[6] and deliberate avoidance or evasion of such payments particularly in the developing polities of the world, Nigeria inclusive.

One of such public institutions where the issue of finance continues to be problematic is the local government, which incidentally, is one of the indispensable vertical organs of government in most federal polities of the world. Infact, it has been argued that "of all the problems of local government, fiscal problem is the most severe[6]. The fact that this remains to be so is puzzling. It is puzzling in the sense that, for a long time finance has been seen as an important tissue of any organisation which determines such organisation's developmental vitality[7] and, enables it to maintain itself and effectively meets its commitment to individual and groups who consume its outputs of goods and services[8]. It is equally puzzling in that a plethora of research attentions, conferences, symposia and project initiatives have been invested on how to avoid fiscal stress and crises in this area of the public sector without hindrance to the decisional existence of government in its authoritative allocations of the scarce societal resource for the citizenry.

Infact, the local governments institution in Nigeria has long been in serious financial crises to the extent that it has almost become impossible to provide the basic essential services needed by the people in their localities without friction. The crux of the matter is the sharp gulf between the increasing demand for such provision and the financial resourcefulness of the local governments to meet such demands due to the inability of most of the local governments to internally generate adequate funds as a result of inadequate revenue rights and restricted fiscal jurisdiction.

Many reasons have been advanced for the financial predicaments of our local governments[5]. In most cases, the financial problems of our local government have been identified as emanating from their overdependence on the statutory allocations from both the federal and state governments which always or most of the time usually fall short of expectation thereby causing financial shock and disarticulation in their service delivery functions[9]. Thus, it has been advised that:

> *however rich the national coffers, there is still great wisdom in ensuring that local governments are encouraged to tap their own financial sources, however limited these may be*[10].

Other problems affecting the financial capability of local governments in Nigeria include lack of initiative on the part of Nigerian local governments to source for other means of generating funds, (e.g. privatisation of local/ municipal services, collaboration with private businesses to produce municipal services), and, inability or unwillingness to prudently manage the existing funds at their disposal[9].

Added to this, is the Federal Government's creation of non-financially viable local governments in Nigeria, which has been continuously done due to what appears to be morbid desire by the citizenry in most cases for political emancipation[11]. Not only this, the financial problems of local government in Nigeria had been greatly increased by the differences in their status (in terms of ruralness and urbanism) as does the quality of personnel available in the local governments service which has constantly affected the financial capability of local government in generating and managing revenue. For instance, lack of qualified manpower has been shown to have negatively affected the improved sourcing of funds through collection of taxes, rates and fees and prudent management of existing funds[9, 10].

Infact, on a concrete note, the twin issues of revenue rights and fiscal jurisdiction have remained, without doubt, the most dominant and contentious in the relationship between local governments, as the third-tier of government, and the other two tiers - Federal and States - within the parameters of Nigerian federalism. As the local government system introduced by the 1976 Reforms took firm roots, and consequently local governments were included in the mainstream of the country's inter-governmental fiscal relations, with a defined share (allocation) of the Federation Account, among other statutory provisions and administrative arrangements, it became clear that the most recurring problem which local governments have to contend with is that of finance and the sizeable mis-match between their statutory functions and responsibilities, and the flow of financial resources available to them, as well as the constraining limits of their tax powers or fiscal jurisdiction. This development has taken for granted the claim that:

> *the success or failure and the effectiveness or ineffectiveness of local government.. in the final analysis depend on the financial resources available to the individual local government and the ways those resources are utilized[12].*

This problem in itself, is a product of the combination of the continuous erosion of the revenue rights of local governments, and the non-correspondence between their functions and/or responsibilities with the tax powers statutorily assigned to them. Thus, it is our contention in this paper that, whether local government is dualistically conceived as once did or not, the fact that it needs unfettered fiscal jurisdiction to be effective as a "major motor for rural development and governance"[13], can hardly be ignored. And, that, fiscal centralism - (which ignores the requisite paraphernalia of decentralisation expected in a federalism) by the government at the centre - and its attendant impoverishment of the other vertical layers or organs (states and local governments) of the state, cannot foster effective governance of the people at these levels in that:

> *Decentralization planned by the Central State either to strengthen its role, or to simply deconcentrate administration while retaining the existing concentration of (financial) power........ cannot be...... meaningful and, can have little impact on fostering participation (and efficiency)[13].*

Not only this, as once opined:

> *Effective fiscal federalism can only be achieved if the Federal Government desists from assuming responsibilities that could be better performed by other tiers[14].*

This being the case, this paper deals with fiscal federalism and local government finance in Nigeria. It specifically examines the twin issues of revenue rights and fiscal jurisdiction of the local government councils within the Nigerian body politic particularly in line with the provisions of the 1999 Federal Republic of Nigeria's constitution. In the process, the concepts of intergovernmental fiscal relations, as the basis of revenue rights and fiscal matters; allocation of functions; and, tax powers are respectively examined.

Specifically, we found it innocuous to slate the twin issues of revenue rights and fiscal jurisdiction for examination here. This is due, in the first place, to the faulty nature of the revenue allocation formula and, spatial differences in the distribution of natural resources in Nigeria which has continuously remain controversial even, up to this point of the twenty-first century, and, the consequent incongruity between expenditure and revenue decentralization ratio.

There is no gainsaying the fact that, in Nigeria, the "degree of decentralization of expenditure is higher than the degree of decentralization of revenue[15]" thereby causing a "great divergence between sources of revenue and functional expenditure obligations in the local government". This lack of needed symmetry has continuously constituted the "problems of non-correspondence or vertical fiscal imbalance[16]". This incongruity and its problems for the local governments within the parameter of Nigerian fiscal federalism is deducible from tables 1 to 4 below which show the Nigerian expenditure

Table 1: Nigeria expenditure decentralization Ratio, 1993-1997 (%)

Year	*Federal*	*State*	*Local*
1993	75.03	17.33	7.64
1994	68.24	23.72	8.04
1995	70.91	22.69	6.40
1996	72.65	21.23	6.12
1997	74.26	19.31	6.43
Average	72.22	20.86	6.93

Source: Authors' calculation from data extracted from CBN's Annual Report and Statement of Accounts, 1997.

Table 2: Nigeria: revenue decentralization ratio, 1993-1997 (%)

Year	*Federal*	*State*	*Local*
1993	96.61	2.87	0.52
1994	94.33	5.11	0.56
1995	95.95	3.61	0.44
1996	96.01	3.62	0.37
1997	95.20	4.39	0.41
Average	95.62	3.92	0.46

Source: Same as in Table I.

Table 3: Nigeria: Shares of revenue by tiers of government in total government revenue, 1993-1997 (%)

Year	*Federal*	*State*	*Local*
1993	71.12	18.92	9.96
1994	67.89	23.13	8.98
1995	80.72	14.19	5.09
1996	79.01	16.57	4.42
1997	79.30	15.63	5.07
Average	75.61	17.69	6.70

Source: Same as in Table I.

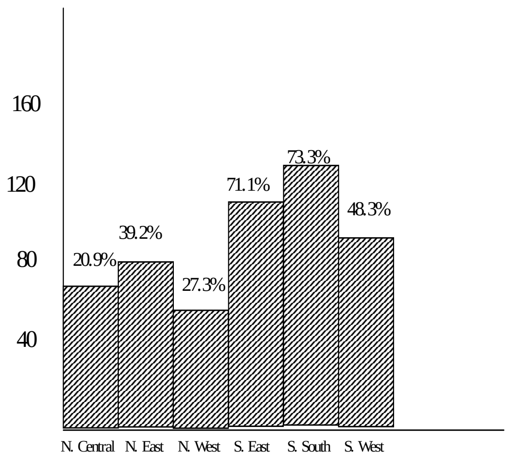
Table 4: Nigerian States: horizontal fiscal imbalance, 1996 (₦m)

States	*Total Revenue*	*Total Expenditure*	*Revenue Expenditure Ratio (%)*	*Shortfall*
Abia	1518.0	1595.9	95.00	5.00
Adamawa	1829.3	2529.7	72.31	27.69
Akwa Ibom	2615.0	2612.0	100.12	-0.12
Anambra	1858.9	227.7	83.45	16.55
Bayelsa[1]	290.1	311.9	93.01	6.99
Bauchi	2378.5	2152.4	110.51	-10.51
Benue	2113.4	1366.7	154.64	-54.64
Borno	1983.8	2234.0	88.80	11.20
Cross River	1765.4	1708.1	103.36	-3.36
Delta	5428.1	3406.6	159.34	-59.34
Ebonyi[1]	292.9	697.7	41.98	58.02
Edo	2172.6	1154.3	188.22	-88.22
Ekiti[1]	298.6	242.7	123.03	-23.03
Enugu	2352.4	3102.0	75.84	24.16
Gombe	326.5	368.4	88.63	11.37
Imo	2193.9	2568.9	85.40	14.60
Jigawa	1863.3	3097.2	60.16	39.84
Kaduna	2806.4	2804.0	100.09	-0.09
Kano	3957.8	2662.7	148.64	-48.64
Katsina	1957.1	2229.4	87.79	12.21
Kebbi	2093.9	1656.1	126.44	-26.44
Kogi	1681.6	1357.6	121.19	-21.19
Kwara	1591.7	878.7	181.14	-81.14
Lagos	8881.0	8057.2	110.22	-10.22
Nassarawa[1]	300.1	128.6	233.36	-133.36
Niger	1736.0	1750.1	99.19	0.81
Ogun	3087.4	3876.6	79.64	20.36
Ondo	2826.7	2902.9	97.38	2.62
Osun	1959.5	2179.6	89.90	10.10
Oyo	2245.3	3273.2	68.60	31.40
Plateau	2206.7	2206.7	100.00	0.00
Rivers	6863.5	6869.0	99.92	0.18
Sokoto	2928.0	1989.9	101.92	-1.92
Taraba	1594.3	1320.2	120.76	-20.76
Yobe	1751.4	1765.6	99.20	0.80
Zamfara[1]	315.0	368.4	85.50	14.5
FCT, Abuja	8638.4	4494.4	192.20	-92.20

Note: Figures are for October – December 1996.
Source: Same as in Table I.

decentralization ratio; revenue decentralization ratio and shares of revenue (in percentage) by tier of government and Nigerian states' Horizontal fiscal imbalance between 1993 and 1997.

Infact, this disturbing aspect of Nigerian fiscal federalism has, among other things, lately led to the agitation for resource control by nearly half of the Nigerian 36 States. As could be seen from figure 1[17], a preponderant majority of Nigerians in the Southern part of the country fully support the idea of resource control as one of the mechanisms through which the incongruities associated with the twin issues of revenue rights and fiscal jurisdiction within the parameters of Nigerian fiscal federalism could be reduced, if not totally eliminated.



SOURCE: GUARDIAN 22/2/2001.

Fig. 1: Graphical representation of support for southern governors' demand on resource control

This trend of support for the States' quest for resource control due to dissatisfaction with existing revenue allocation formula shown in Table V has manifested itself at the local level of Nigerian federalism. Infact, as Anyanwu once noted:

> There has been an increasing wave of discordant voices from state and local government over revenue allocations in recent times. This suggests that an appropriate balance is yet to be struck in the use of revenue allocation to correct the imbalance between responsibilities and revenue power at the lower levels of government. The state governments are seriously questioning the diminution in their share of the federation account from 30 percent to 24 percent. Equally, the local governments are complaining that the hikes in their share of the federation accounts from 10 percent to 15 percent and later to 20 percent have not kept pace with the additional responsibilities assigned to them, especially with regards to primary education and primary health care (delivery)[15].

The reasons for the foregoing are clearly displayed by the relationship between revenue allocation formula and fiscal dependency of the three tiers of Nigerian federalism as contained in Tables 6 below.

Table 5: Allocations formula for federally-collected revenue 1981 – 1999 (%)

S. No.	*Recipients*	*1981 Act*	*1984 Act*	*1990 Jan.*	*1992 Jan.*	*June 1992-1999*
1.	Federal Government	55	55	50	50	48.5
2.	State Government	30.5	32.5[a]	30	25	24
3.	Local Government	10	10	15	20	20
4.	Special Funds		2.5	5	5	7.5
(a)	Federal Capital Territory			1	1	1
(b)	Stabilization	-	-	0.5	0.5	0.5
(c)	Derivation	2	2[b]	1	1	1
(d)	Development of Oil Mineral Producing Areas	1.5	1.5[c]	1.5	1.5	3
(e)	General Ecology	1	1	1	1	2
	Total	100	100	100	100	100

Notes: (a) 32.5 per cent of the federally-collected revenue is shared among the states.
(b) 2 per cent is of the mineral revenue components of the 32.5 per cent of the federation account.
(c) 1.5 per cent is of the revenue accruing to the federation account derived from the oil producing areas.

Source: (i) Anyanwu, J.C. 1995. "Revenue allocation and stable fiscal federalism in Nigeria". *Journal of Economic Management*, 2 (2): 1-28.
(ii) Budget speeches, 1996, 1997, 1998 and 1999.

Table 6: Relationship Between Revenue Alloca-tion Formula and Fiscal Dependency

	1981		*1984*		*1990*		*Jan. 1992*		*Jun. 1992-1997*	
	Share in fed. Rev. (%) (A)	*Dependency ratio (B)*	*(A)*	*(B)*	*(A)*	*(B)*	*(A)*	*(B)*	*(A)*	*(B)*
Fed. Govt.	55	0.067[a]	55	0.048[a]	50	0.028[a]	50	0.026[a]	48.4	0.025[a]
		0.314[b]		0.215[b]		0.182[b]		0.138[b]		0.238[b]
State Govt.	30.5	0.73[c]	32.5	0.734[c]	30	0.82[c]	25	0.75[c]	24	0.583[c]
		0.279[d]		0.267[d]		0.137[d]		0.161[d]		0.207[d]
Local Govt.	10		10		15		20		20	
Special funds	4.5		2.5		5		5		7.5	
Total	100		100		100		100		100	

Notes:
(A) = Share in federally collected revenue.
(B) = Dependency ratio: calculated as stated in notes a and b below.

a. Interval mean of (3)/(4) in Table V above, e.g., the value 0.048 for 1984 is derived as the sum of the ratios for 1984-1989 divided by 6.
b. Interval mean of (2)/(3) in Table V calculated as explained in note a.
c. Interval mean of (5)/(7) in Table V above, calculated as explained in the preceding note a.
d. Interval mean of (6)/(7) in Table V above, calculated as described in note a.

Source: Value under (A) are reported in Anyanwu J.C. (1997), ***Nigerian Public Finance,*** Onitsha: Joanee Educational Publishers Limited (P. 190).

These developments make the twin-issues in question here, indispensably relevant and justified for a research or intellectual focus as we have done within the context of this study.

Concept of Intergovernmental Fiscal Relations (Fiscal Federalism)

This concept has been variously examined by scholars and practitioners of repute over the years and, within most polities of the world by ways of scholarship and policy initiatives. Infact, the nitty-gritty of intergovernmental fiscal relations (IGFR) is concretely located within the definitional elucidation of the concept of federalism though, with economic blending. Thus, along this line, federalism could be taken to mean a system of government where revenue and expenditure functions are divided among tiers/levels of government. This division is usually done to enhance the government's effective provision of public goods and services at different levels to the citizens. Infact, it has been generally opined that revenue-generating responsibility; spending responsibilities; intergovernmental transfer and administrative aspects of fiscal decentralization are actually the real issues involved in intergovernmental fiscal relations[11] or fiscal federalism as it is usually conceptualised.

Fiscal federalism refers to allocation of tax powers and expenditure responsibilities between levels of government[18]. According to Sewell and Wallich[19], Latvack and Wallich[20] the objectives of fiscal relations among units in a federation are to:

a. ensure correspondence between subnational expenditure responsibilities and their financial resources (inclusing transfers from the central government) so that functions assigned to subnational governments can be effectively carried out;
b. increase that autonomy of subnational government by incorporating incentives for them to mobilize revenues of their own;
c. ensure that macroeconomic management policies of the central government are not undermined or compromised;
d. give expenditure discretion to subnational government in appropriate areas in order to increase the efficiency of public spending and improve the accountability of subnational officials to their constituents in the provision of subnational services;
e. incorporate intergovernmental transfers that are administratively simple, transparent and based on objective, stable, non-negotiated criteria;
f. minimize administrative costs and, thereby, economize on scarce criteria;

g. provide "equalization" payments to offset differences in fiscal capacity among states and among local governments so as to ensure that poorer subnational governments can offer sufficient amount of key public services;
h. incorporate mechanisms to support public infrastructure development and its appropriate financing;
i. support the emergence of a governmental role that is consistent with market-oriented reform; and
j. be consistent with nationally agreed income distribution goals.

Specifically, Nigerian fiscal federalism structure involves the allocation of expenditure and taxing powers among the federal, state and local governments. According to Tella[21] fiscal federalism is deepseatedly rooted in "political arrangement called federalism". As the financial relationship between and among existing tiers of governments, fiscal federalism deals with the system of transfer or grants through which the federal government shares its revenue with the state and local government[17]. It is the fiscal transactions and co-ordination of financial arrangement among the various units of government in a federation like Nigeria.

In Nigeria, local governments expenditure had constantly surpassed the potentials for their revenue sources due to the great gulf between their needs and their fiscal capacity. This has been largely caused by the incongruous nature of their revenue rights and fiscal jurisdiction with the duties and functions constitutionally allocated to them. In other words, the nature and scope of Nigerian fiscal system or federalism with reference to tax jurisdiction and revenue allocation are progenies of the constitutional and political developments of the country per se. There is no gainsaying the fact that "fiscal laws in Nigeria clearly give more tax powers to the federal government than the remaining two lower tiers of government. This has been largely so, and anchored or, embedded within the political, social, economic, cultural and constitutional history or developments of the Nigerian nationhood. This claim is identifiable at a glance from the schematic and tabular depictions of the evolution of Nigeria federal structure since 1914 and, composition of Nigeria's federal system by Regions/States and local governments between 1960 and 1997 as shown in Tables 7 and 8 below.

Given this core of IGFR, there appears to be a scholarly unanimity on the benefits a country like Nigeria could derive from fiscal decentralism because, the negative multiplier effects of fiscal centralism are enormous and above all, incompatible with the demands of federalism.

Table 7: Evolution of Nigeria's Federal Structure, 1914-1996.

Date	*Northern Nigeria*	*Southern Nigeria*	*Total*	*Enabling Laws*
1914	1 Protectorate	1 Protectorate	2	
19??-1939	1 Group of Province	2 Groups of Provinces (East andWest)	3	Native, Authority Ordinance
1946	1 Region (Northern Region)	2 Regions (East & West)	3	Notice No. 43 of 1933
	12 Provinces	11 Provinces	23	Notice No. 1725 of 1938
	39 Divisions	44 Divisions	83	Notice No. 17 of 1943
1963	1 Region (Northern Region)	3 Regions (East, West & Mid-West)	4	The Mid-West Region
	14 Provinces	21 Provinces	35	Transitional Provisional Act No.
	41 Divisions	55 Divisions	96	9 of 1963
1967	10 States	6 States	12	State (Creation and Transitional
	41 Divisions	55 Divisions	96	Provisional) Decree 14, 1967
1976	10 States	9 States	19	State (Creation and Transitional
	152 Local Governments	148 Local Governments	300	Provisional) Decree 14, 1976
1987-1990	11 States	10 States	21	State (Creation and Transitional
	240 Local Governments	148 Local Governments	448	Provisional) Decree 1987 & 1989
1991	17 States (including FCT)	14 States	31	State (Creation and Transitional
	320 Local Governments	273 Local Governments	595	Provisional) Decree 37, 1991
1996	*20 States (including FCT)	17 States	37*	State (Creation and Transitional
	414 Local Governments	355 Local Governments	769*	Provisional) Decree 36, 1996

Notes: * Provinces created between 1933 and 1963 now have the status of states while divisions created in the same period now have the status of local governments.** It should be stated however that Nigeria currently has 36 states because the FCT is not a state. Equally, Nigeria currently has 774 local government areas and not 769.
Sources: Tell Magazine, March 29, 1999, pp.50.

Table 8: Composition of Nigeria's Federal System by Regions/States and Local Governments, 1960-1997

Years	*Regions/No. of States*	*No. of Local Governments*
1960	3 (regions)	-
1963	4 (regions)	-
1967	12	-
1970	12	299
1978	19	299
1979	19	301
1981	19	301
1984	19	301
1987	21	499
1991	30	589
1997	36	774

This has largely been so and would remain to be so inspite of the traditional approach of western macro-economic development and Keynesian theory of the past both of which favoured fiscal centralization. This is so because, federalism requires diffusion of powers to accelerate growth rates within the polity. Not only this, fiscal decentralization has been argued to be statistically and positively significant and related to economic growth than fiscal centralism. Thus, as Oates[22] once noted:

> There are surely strong reasons, in principle, to behave that policies formulated for the provision of infrastructure and even human capital that are sensitive to national or local conditions are likely to be more effective in encouraging economic development than centrally determined policies that ignore these geographical differences[22].

Inspite of the position of the proponents of fiscal centralization that it can create problems relating to distributional and macro-economic management, it has been argued that "decentralization of spending responsibilities to lower level of government will ensure efficient allocation of resources for the provision of local public goods and services which mostly represent the aspirations of people at that level. On the same token, it has been equally argued that when public goods like defence, foreign affairs, immigration, currency, infrastructure for interstate transport and communications whose provisions require substantial economies of scale can be continuously slated for centralized attention. This argument on the positive multiplier effects of fiscal decentralization notwithstanding, the tendency in most federations, Nigeria inclusive has largely been to give a pride of place to fiscal centralism in the conduct of Governmental business relative to distributive, redistributive, regulative and constituent public policy-making. In other words, according to literature[24, 25]:

> In most federations, the tendency is for the federal government to retain responsibility for strategic sectors, including research and development.

This notwithstanding, the need for fiscal decentralization has continue to gain momentum within most federated polities[26,23,27, 24,25,27]. For example, in Nigeria, almost every constitutional making process has always sought information on what principles to utilize for the distribution of the national income. To be specific such information seeking efforts had been on, in Nigeria, since the period of colonial administration and the introduction of Richard constitution in 1946, Phillipson commission of 1946. 1951 Macpherson constitution, 1951 Hicks-Phillipson commission, 1953 Chick's commission, 1958 Raisman commission, 1964 Binns commission, 1963 Dina committee.

These were followed in 1967, 1970, 1971 and 1975 by decrees on the same subject. The major achievements of these efforts notwithstanding, the period between 1977 and 1984 due to incessant agitations and demands for better and more-equitable distributional methods/formulae witnessed the emergence of different revenue allocation efforts. These efforts are exemplified by Aboyade Commission of 1977; 1980 Okigbo Commission, Allocation of Revenue Act of 1981 and, 1984 Allocation of Revenue amendment decree. Some of these efforts and their provisions are schematically depicted in Tables 10 and 11.

Since this time, the increasing discontentment of the citizenry in Nigeria with the unitarization of fiscal relations and, the existing revenue allocation formula has continued to gain more vitality. This has continued to be so despite the changes that took place on same in 1991 and 1992.

The call for a review of the revenue allocation formula and more equitable fiscal federalism has even gained more momentum since the commencement of the current democratic dispensation. Infact, the new lease of life given to the newly Constituted Revenue Mobilization,

Table 10: Comparative picture of revenue allocation principles and the commissions/committee/ acts in nigeria (1946-1980) commissions/committees/reports/acts/decrees

	Principles/Criteria/ Funds	*Phillipson (1946)*	*Hicks-Phillipson (1951)*	*Chicks (1953)*	*Raisman (1953)*	*Bubbs (1964)*	*Dina (1968)*	*Aboyade (1978)*	*Okigbo (1978)*	*Allocation of Revenue Federation Account, etc, Act 1981*
1	Derivation	X	X	X	X		X			
2	Even Development		X		X		X			
3	Need		X		X		X			
4	National Interest		X							
5	Independence Revenues		X							
6	Continuity of Government Services				X					
7	Financial comparability					X				
8	Population				X				X (40%)	X (40%)
9	Minimum Responsibilities/Equity of states				X				X (40%)	X (40%)
10	Minimum National Standards							X (22%)		
11	Equity of Access to Development							X (25%)		
12	Absorptive Capacity								X (20%)	
13	Internal Revenue Effort								X (15%)	X (15%)
14	Fiscal efficiency							X (15%)		
15	Social Development Factor								X (15%)	X (15%)
16	Tax Effort							X (18%)		
17	Special Grant/Fund							X (3%)	X (7%)	

Sources: Bade Onimode. "Resources derivation, allocation and utilization", in *Friedrich Ebert* Foundation, Publication: Constitutions and Federalism *Proceedings of the Conference on Constitutions and Federalism* held at the University of Lagos, Nigeria 23-25 April, 1996.

Table X: Summary Development of Revenue Allocation Principles in Nigeria

YEAR/POLITICAL SYSTEM	FISCAL COMMISSIONERS	RECOMMENDATIONS	ACCEPTED PRINCIPLES
1. 1947/48 UNITARY SYSTEM	SIR SYDNEY PHILLIPSON AND S.O. ADEBO		A. DERIVATION B. EVEN PROGRESS
2. 1952/53 QUASI-FEDERAL SYSTEM	PROF. J.R. HICKS, SIR SYDNEY PHILLPSON AND D. SKELTON		A. DERIVATION B. NEED C. NATIONAL INTEREST
3. 1954/58 FEDERAL SYSTEM (3 REGIONS, LATER CAMEROON BECAME A SEPARATE REGION)	SIR LOUIS CHICK		A. DERIVATION B. FISCAL INDEPENDENCE
4. 1959/60 FEDERAL SYSTEM (4 REGIONS)	SIR. J. RAISMAN AND PROF. R.C. TRESS		A. DERIVATION B. NATIONAL UNITY C. FISCAL INDEPENDENCE
5. 1964/67 FED. SYSTEM (4 REGIONS, CAMEROON INCLUSIVE 3 MID-WEST)	MR. BINNS	A. REGIONAL FINANCIAL COMPARABILITY B. CONTINUITY OF SERVICE C. MINIMUM RESPONSIBILITIES	A. DERIVATION B. FISCAL INDEPENDENCE C. NATIONAL INTEREST EAST 30% NORTH 42% MID-WEST 8% WEST 20%
6. 1968 FEDERAL SYSTEM	CHIEF O. DINA	A. MINIMUM NATIONAL STANDARD OF BASIC NEEDS	A. EQUALITY OF STATES 50% B. POPULATION 50%

Table X: Contd....

YEAR/POLITICAL SYSTEM	*FISCALCOMMISSIONERS*	*RECOMMENDATIONS*	*ACCEPTEDPRINCIPLES*
		B. POPULATION C. TAXEFFORTS D. FINANCIAL PRUDENCE E. FISCAL ADEQUACY F. BALANCED DEVELOPMENT G. INDEPENDENT REVENUE H. DERIVATION I. NATIONAL INTEREST	C. DERIVATION
7. 1975/76	F.M.G.		A. EQUALITY OF STATES B. POPULATION C. DERIVATION
8. 1977	PROF. A.O. ABOYADE	A. EQUALITY OF ACCESS TO DEV. OPPORTUNITIES (25%) B. NATIONAL MINIMUM STD. FOR NATIONAL INTEGRA-TION (22%) C. ABSORPTIVE CAPACITY (20%) D. INDEPENDENCE REVENUE AND MINIMUM TAX EFFORT (18%) E. FISCAL EFFICIENCY (15%) FEDERAL 57% STATES JOINT A/C 30% LOCAL GOVERNMENT 57% SPECIAL GRANTS A/C 30%	A. EQUALITY OF ACCESS TO DEV. OPPORTUNITIES (25%) B. NATIONAL MINIMUM STD. FOR NATIONAL INTEGRATION (22%) C. ABSORPTIVE CAPACITY (20%) D. INDEPENDENCE REVENUE AND MINIMUM TAX EFFORT (18%) E. FISCAL EFFICIENCY (15%) FEDERAL 57% STATES JOINT A/C 30% LOCAL GOVERNMENT 57% SPECIAL GRANTS A/C 30%
9. 1979	DR. PIUS OKIGBO		DECLARED ULTRA VIRES BY THE SUPREME COURT
10. 1981	FEDERAL GOVERNMENT REVENUE ACT OF 1981/82		FEDERAL 53% STATES 35% LOCAL GOVERNMENT 10% SHARING OF STATES' ALLOCATION MINIMUM RESPONSIBILITY EQUALITY OF STATES POPU-LATION SOCIAL DEVELOPMENT INTERNAL REVENUE EFFORT DERIVATIONECOLOGY
1988/89	GEN. T.Y. DANJUMA	VERTICAL ALLOCATION: FEDERAL GOVT. 47% STATE GOVTS. 30% LOCAL GOVTS. 15% SPECIAL FUNDS 8% SPECIAL FUND: FCT 1% STABILIZATION 0.5% SAVINGS 2% DERIVATION 2% OMPADEC 1.5% DEV OF NON-OIL 0.5% GEN. ECOLOGY 0.5% HORIZONTAL ALLOCATION EQUALITY OF STATES 40% POPULATION 30% SOCIAL DEV. FACTOR 10% LAND MASS & TERRAIN INT. REV. EFFORT 20%	VERTICAL ALLOCATION: FEDERAL GOVT. 47% STATE GOVTS. 30% LOCAL GOVTS. 15% SPECIAL FUNDS 8% SPECIAL FUND: FCT 1% STABILIZATION 0.5% SAVINGS 2% DERIVATION 2% OMPADEC 1.5% DEV OF NON-OIL 0.5% GEN. ECOLOGY 0.5% HORIZONTAL ALLOCATION EQUALITY OF STATES 40% POPULATION 30% SOCIAL DEV. FACTOR 10% LAND MASS & TERRAIN INT. REV. EFFORT 20%
11. 1999	F.M.G		FED. GOVT 48.5% STATE GOVTS. 24% LOCAL GOVTS 20% FCT 1% GEN. ECOLOGY 2% STABILIZATION 0.5% DERIVATION (MR) 1% OMPADEC 3%

SOURCE: NES 1999, P. 46.

Table 11: Recommendations on shares of federal revenues by level of government (1%): commissions/committees/ reports/ act

Level of government	*Aboyade (1978%)*	*Okigbo (1980%)*	*Allocation of revenue (federation accounts, etc). act 1981(%)*
Federal	57	53	55
States	30	30	35
Local	10	10	10
Special fund	3	7	*

* Special fund consisting of 1.5% for the development of mineral producing areas and 1% for ecology is included in the 35% state allocation.

Sources: **Bade Onimode.** "Resources derivation, allocation and utilisation", in *Friedrich Ebert Foundation*, Publication: Constitutions and Federalism *Proceedings of the Conference on Constitutions and Federalism* held at the University of Lagos, Nigeria 23-25 April, 1996 .

Allocation and Fiscal Commission is largely a derivative of the people's disenchantment with the alienating fiscal centrality of the Nigerian Intergovernmental relations particularly as it affects revenue rights; principles of derivation; tax powers and the citizenry in general vis-a-vis the actions and inactions of Government and State Actors in the provision of public goods to the people and, the other layers of government which, as could be seen from Table XII continue to increase in number in Nigeria.

Possible ways out of this apparent dilemma and internal contradictions of Nigerian federalism without dismantling the latter, while at the same time the people are able to derive the benefits of federating without parasitic symbiosis form part of the core of our analysis in this study.

Federalism and Functional Allocation

One of the primary features of a federal system of government is the allocation or assignment of functions between the component units (levels or tiers) of government. This also forms the basis for the determination of revenue rights and the delimitation of tax powers, which constitute the genesis of intergovernmental fiscal relations. Most constitutional arrangements in federal systems adopt the classifications of powers and responsibilities into exclusive,

Table 12: Three tiers of government in Nigeria, 1946 - 2000

Year	*Federal government*	*Regional/state governments*	*Local governments*
1946	1	4*	N A
1960	1	4*	N A
1961	1	3**	N A
1963	1	4**	N A
1967	1	12	299
1970	1	12	299
1976	1	19	299
1979	1	19	301
1981	1	19	781
1984	1	19	301
1987	1	21	449
1991	1	30	500
1991	1	30	589
1996	1	36***	774
1997	1	36	774
1998	1	36	774
1999	1	36	774
2000	1	36	774

Notes: *Regions were inexistence until the twelve-state structure was adopted in 1967. Excluding southern Cameroon which pulled out of the federation in 1961
**Mid-west region was created in 1963
***The thirty state federal structure was increased to 36 in October 1996.

Source: Compiled from Nigerian Constitutions and Official Gazettes.

concurrent and residual legislative lists, as is the case in Nigeria. The basis of this classification can be historical, political or economic, among other considerations. Thus, it is generally accepted that the assignment of functions among federating units should be organised in such a way that:

(i) functions which can be more efficiently performed by the federal government than the lower level governments be assigned to the former, (i.e. be placed in the exclusive legislative list). These include national defence, external relations (including borrowing and external trade), banking, currency, nuclear energy etc.

(ii) functions whose benefit areas are more local than national but with possibility of spill-over effects be placed in the concurrent list. Such functions include industrial, commercial or agricultural development, post primary institutions, health care etc.

(iii) functions which are purely local in character, in the sense that the benefits accrue, in the main, to limited geographic areas within the country are usually assigned to local authorities. Such functions would include the establishment and maintenance of markets, motor parks and public conveniences, refuse disposal, primary education, and the construction and maintenance of local roads and streets[28].

It should immediately be pointed out however, that it could be difficult, if not impossible, to put most of these functions into watertight compartments. This fact underlies the principle of cooperation within the federating units in the performance of a number of functions.

Allocation of Tax Powers

Two factors have been determined to constitute the major basis of allocating tax powers amongst the component levels of government in any federal system. These are: administrative efficiency and fiscal independence. The efficiency criterion demands that a tax be assigned to the level of government that will administer it efficiently at minimum cost; while the fiscal independence requires that each level of government should, as far as possible, raise adequate resources from the revenue sources assigned to it to meet its needs and responsibilities.

Experience in many countries strongly indicate that there is often a conflict between the two determining criterion: the efficiency criterion tends to conflict with the principle of fiscal independence. While the former would call for a great deal of concentration of tax powers at the higher levels of government due, in large measure, to the limited administrative capacity of lower level governments, the latter would demand the devolution of more tax powers to lower units of government to match the functions assigned to them.

Revenue Rights

Revenue rights are essentially the product of the statutory arrangements relating to the assignment of functions and allocation of tax powers. Quite often, because of the conflict between the two major criteria: administrative efficiency and fiscal independence, which we earlier noted, often tends to result in over concentration of tax powers with the centre, it has always been found necessary to make statutory provisions for revenue sharing. This arrangement makes it possible for the transfers of shares of centrally collected revenues which are allocated on the basis of given principles or criteria between the different levels of government (i.e. vertically), and within the same levels (i.e. horizontally). In most countries, operating a federal system of government, the responsibility for revenue sharing, including the determination of appropriate criteria to be employed is usually handled by high powered fiscal commissions, which could be established on ad-hoc basis as was the case in Nigeria between 1946 and 1990, or it could be handled by a permanent body like the case of the national revenue mobilization and fiscal commission in Nigeria, or even semi-permanent like the case of fiscal commissions in India.

In the exercise of revenue sharing or revenue allocation, each level of government is guaranteed a percentage from the central pool. In Nigeria, this pool is known as the federation account. Furthermore, the allocation of tax powers often results in giving the legal authority for a certain tax, while its collection could be entrusted to another level of government. More often than not this arrangement results in the sharing of the yield of revenue from the particular tax head between the level of government having the legal authority for the tax, and the level entrusted with its collection. Thus, whether the revenues of a level of government accrue from sharing proceeds of the central pool, or from the latter arrangement discussed, or, indeed, any other arrangement statutorily authorised, those revenue sources become the revenue rights, of the level of government. Also, all statutorily designated local taxes become the revenue right of the local governments and so on.

FUNCTIONAL AND TAX POWERS ALLOCATION IN NIGERIA:

Functional Allocation

The allocation of functions among the component units of the Nigerian federal system, (i.e. federal, states and local governments, is spelt out in section 4 second schedule of the 1999 constitution of the Federal Republic of Nigeria). This section specifies three main categories of legislative functions: the exclusive legislative list, which contains some 66 odd functions which only the federal government can legislate upon; the concurrent legislative list, which consists of about 8 functions which both the federal and state governments can legislate upon; the remaining functions are on the residual legislative list which is not a list as such but consists of those functions not specifically mentioned or included in the exclusive list nor the concurrent list.

In addition to the above provisions, section 7 of the same constitution provides for the establishment of local governments, which are made creatures of the state governments, and whose functions are spelt out in the fourth schedule. These functions are classified into two categories; the first category consists of those functions to be solely performed by the local governments, while the second consists of those to be performed concurrently or in "participation", with their respective state governments.

It is instructive to note that the structure of functions outlined above, for all levels of government, have remained, by and large unchanged through the constitutional changes since the 1979 constitution. It is also important to note that the assignment of functions included in the specific legislative lists, and in the fourth schedule (for local governments) include both expenditure functions (functions which involve incurring expenses), and revenue functions, (functions which involve the raising of revenue).

Allocation of Tax Powers

The allocation of tax powers or determination of fiscal jurisdiction is essentially a legislative function. Indeed even during the years of military rule in Nigeria, the allocation of tax powers is issued through the instrument of a decree. An important point to note about the allocation of tax powers in Nigeria is the relative long-run stability of the system as there has not been any major or significant change in this structure over the last three decades (30 years) or so. Most of the discussions and controversies over the structure of fiscal federalism and the accompanying dynamics of intergovernmental fiscal relations have centred more on revenue sharing as opposed to sharing of responsibility and authority for raising the revenues that go into the federation account.

The prevailing distribution of tax powers in Nigeria is presented in Table 13 below. This table shows the type of tax, the level of government

Table 13: The Allocation of tax powers in Nigeria, 1999

		Jurisdiction	
S. No.	Type of Tax	Law	Administration and collection
1.	Import duties	federal	federal
2.	Excise duties	federal	federal
3.	Export duties	federal	federal
4.	Mining rents and royalties	federal	federal
5.	Petroleum profit tax	federal	federal
6.	Companies income tax	federal	federal
7.	Capital gains tax	federal	federal/ state
8.	Personal income tax (other than those listed	federal	states
9.	Personal income tax: armed forces, external affairs officers, non-residents, residents of the federal capital territory and Nigerian police force	federal	federal
10.	Licenses fees on television and wireless radio	local	local
11.	Stamp duties	federal	federal/ states
12.	Capital transfer tax (cut)	federal	states
13.	+ Value added tax (vat)	federal	federal
14.	Pools letting and other betting taxes	states	states
15.	Motor vehicle and drivers' licences	states	states
16.	Entertainment tax	states	states
17.	Land registration and survey fees	states	states
18.	Property taxes and rating	states	local
19.	Market and trading licence and fees	local	local
20.	Motor-part duties	Local	local
21.	Advertising fees	local	local
22.	Gift tax	state	state

+ listed, but no longer imposed.

Source: Constitution of the Federal Republic of Nigeria.

with the legal authority to legislate on the tax, and the level that administers and collects the tax. From the table we can see that the major tax heads including: duties, rents and royalties, petroleum profit tax, company income tax, etc., are not only under the federal government's jurisdiction, they are administered and collected directly by the federal government through its various agencies.

The items, listed (1) to (9), account for between 85 and 90 percent of all federal revenues going into the federation account. Nothing in our discussion so far should suggest that because a level of government has legal authority over a tax head, or groups of tax heads, as well as administrative responsibility for collection, it will collect and appropriate the total amounts collected to itself. Indeed, the bulk of those revenues collected by the Federal Government goes into the federation account which is shared between it (the Federal Government) and the other levels of government. So too are the proceeds of value Added Tax (VAT), which was introduced in 1993, shared among the three levels of government.

Local Governments Tax Powers and Revenue Rights: The Main Issues

The main issues surrounding the tax powers of local governments centre around the inadequacy, in terms of coverage, and the non-buoyancy/inelasticity of those tax or revenue heads that fall under the jurisdiction of local governments. Again, from Table XIII, we can see that only four tax heads fall within the legal and administrative jurisdiction of local governments - these are: licences, and fees on television and wireless radio; market and trading licences and fees; motor park duties; and, advertising fees. In practice, only one tax head or source, (i.e. markets, etc) is exploited by the local governments. Interestingly also, even the tax head that is universally considered a local tax, (i.e. property tax and rating), is in reality under the legal jurisdiction of the state as evidenced from the 1999 constitution which provides that tenement rates or private property can be assessed by local governments, but the levying of the rates will have to be prescribed by the state house of assembly. (See item j fourth schedule) of the 1999 constitution.

The residual legislative powers of local governments to raise revenue are generally codified under the following local government revenue heads 1001 (taxes); 1002 (rates); 1003 (local licences, fees and fines); 1004 (earnings from commercial undertakings); 1005 (rent on local government property); and 1006 (interest payments and dividends). The first three heads (i.e. 1001 - 1003), can be said to constitute the mainstay of local governments "own" or internal revenues. The important characteristics of all these sources however is their low revenue yields. Head 103, for instance, covers an extensive range of items or sub-heads, 101 in all. Interestingly however, revenues from these internal sources amount to a less than significant portion of the local governments total recurrent revenue.

The inability of local governments to raise substantial portions of their total recurrent revenue requirements from internal sources has of course become common-place knowledge. Reasons for this have ranged from the very narrow revenue base imposed on the local governments by the statutory distribution of tax powers to the continuous infringement on their revenue rights by the state governments in particular.

Generally, "studies on fiscal federalism in Nigeria, have shown a high degree of centralization[29],[30],[15]. The expenditure requirements of each tier of the Nigerian government particularly, the local governments have been treated with contempt by the federal government in its allocation of revenue. As a result of this, while other tiers remain pauperized, the federal government has largely remained a "surplus-spending unit" as can been seen from Tables XI, XII and XIII. The lopsidedness in the fiscal operation of Nigerian federalism due to the exercise of too much control by the federal government are clearly deducible at a glance from the contents of Tables 14 and 15 below while Tables 16 and 17 show that the federal government between 1993 and 1997 controlled 68% and 75% of total public sectors expenditure compared to the 32% to 25% of the other two tiers during the same period.

This lopsidedness is without regard (by the federal government) to the fact that almost 80% of Nigerians live in the rural areas which rightly fall within the governmental aegies of the local

TABLE 14: NIGERIA'S FISCAL OPERATIONS, 1995-1998 (IN BILLION ₦)

		Actual 1995	*Actual 1996*	*Actual 1997*	*Actual to Nov. 1998*
Total oil and non-oil revenue		354	39	45	50
Less					
a.	Joint venture cash calls	45	44	44	29
b.	National priority projects	26	44	44	34
c.	External debt service	44	42	30	32
d.	Transfer to trust fund	35	35	35	--
e.	Transfer to reserve	--	204	198	145
		--------	--------	--------	-------
		150	204	254	145
Total federally collectable revenue		204	213		274
Less					
Federal government independent revenue and VAT		29	14	24	13
VAT (states and local governments*)		14	20	22	30
Total federation account		161	179	208	231
Distribution of the federation account revenue					
Federal government – 48.5%		79	87	101	112
State governments – 24%		38	43	50	55
Local governments – 20%		32	36	42	46
Special funds – 7.5%		12	13	15	18
Total federal government revenue		162	179	208	231
Fed. Govt. share of federation account		79	87	165	--
Independent revenue & Others**		21	6		--
Value added tax		8	11		--
Petroleum products price adjustment		35	42	38	--
Loans & grants subventions		--	2	2	--
External debt service charge		44	44	--	--
AFEM intervention profit		38	62	47	--
		225	254	252	--

NOTES:
VAT = VALUE ADDED TAX
* LOCAL GOVERNMENTS WERE ADDED IN THE 1998 ACCOUNT
* * FEDERAL RETAINED EARNINGS AND VAT IS 14 BUT WHEN DISAGGREGATED IT AMOUNTS TO 17 BECAUSE OF OTHER UNSPECIFIED SOURCES.
* * * SUM OF ITEMS 1, 2, AND 3.
SOURCES: 1. FEDERAL REPUBLIC OF NIGERIA, APPROVED BUDGETS FOR 1996 AND 1997.
2. FEDERAL GOVERNMENT OF NIGERIA, BUDGET SPEECHES AND BRIEFINGS, 1998 AND 1999.

governments. Infact it could be seen from tables IX, XI, XII, and XIII, it is clear that all major sources of revenue – petroleum, profit tax, import duties, mining rents and royalties, and company income tax, fall within the controlling purviews or jurisdiction of the Nigerian federal government while the remaining two tiers of governments particularly the local governments have jurisdiction over minor and poor-yielding revenue sources hence, the problems of non-correspondence or incongruity highlighted above.

Concretely, the extent of this fiscal imbalance or incongruity both in revenue generation by the tiers of government in Nigeria occasioned by the fiscal centralism or control of public sector revenue generation and expenditure allocation by the federal government in Nigeria is shown in Tables 18.

The issues that emerge from our discussion can be summarised into two, viz: the substantial mis-match between functions assigned to local governments on the one hand, and the tax powers assigned to them, on the other. Coupled with this, is, of course, the infringement on their revenue rights by the state governments. Both situations pose very serious questions as to the ability of local governments to "govern at the local level", in line with the stipulated expectations of the 1976 reforms.

TABLE 16: SOURCES OF REVENUE TO GOVERNMENTS IN NIGERIA (₦ MILLION)

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Federal Government								
* Statutory allocation from the federation account.	23,575.0	27,788.8	38,240.0	51,797.7	53,661.0	78,569.3	81,056.0	101,000.0
* Independent revenue	1,724.0	3,040.4	4,903.1	5,626.5	3,888.2	20,761.0	3,407.0	8,339.9
* Others (including share of VAT, grants, etc.)	12,853.1	--	10,121.0	68,647.0	33,073.7	150,437.8	240,681.0	241,922.4
Subtotal	38,152.1	30,829.2	53,264.1	126,071.2	90,622.9	249,768.1	325,144.0	351,262.3
% of Total	65.6	55.4	62.0	68.6	56.9	73.0	74.1	73.5
State Govts and FCT, Abuja								
* Statutory allocation from the federation account	16,378.8	19,742.2	24,497.3	27,660.6	29,006.8	38,677.4	41,626.4	50,962.7
* Internally generated revenue	2,761.7	3,181.2	5,244.7	5,726.2	10,929.8	17,287.3	19,602.9	26,828.1
* Others (including share of VAT, grants, etc.)	826.9	1,848.8	2,931.6	4,353.8	9,569.5	12,036.3	28,573.1	17,891.0
Subtotal	19,967.4	24,772.2	32,673.6	37,740.6	49,506.1	68,001.0	89,802.4	95,682.0
% of Total	34.4	44.6	38.0	20.5	31.1	19.9	20.5	20.0
Local Governments								
* Statutory allocation from the federation account	n.a	n.a	n.a	18,316.4	17,321.3	17,875.5	16,569.7	20,066.3
* Internally generated revenue	n.a	n.a	n.a	1,035.6	1,205.9	2,110.8	2,027.1	2,515.6
* Others (including share of VAT, grants, etc.)	n.a	n.a	n.a	522.5	695.9	4,426.4	5,345.3	8,436.4
Subtotal	n.a	n.a	n.a	19,874.5	19,223.1	24,412.7	23,942.1	31,018.3
% of Total	--	--	--	10.8	12.1	7.1	5.5	6.5
Grand Total for all govts	58,119.5	55,601.4	85,937.7	183,686.3	159,352.1	342,181.8	438,888.5	477,962.6

SOURCE: DERIVED FROM THE CBN ANNUAL REPORT AND STATEMENT OF ACCOUNT (VARIOUS ISSUES).

TABLE 16: DISTRIBUTION OF TOTAL PUBLIC SECTOR EXPENDITURE AMONG THE FEDERAL, STATE AND LOCAL GOVERNMENTS, 1993-1997 (₦ MILLION)

Date	Federal	%	States & FCT	%	Local Govt.	%	Total
1993	1,912,229.1	75	44,180.9	17	19,475.5	8	254,885.5
1994	160,893.2	68	55,916.4	24	18,967.1	8	235,776.7
1995	248,767.8	71	79,591.6	23	22,443.3	6	350,802.7
1996	288,289.3	73	84,177.1	21	24,261.7	6	396,528.1
1997	356,262.3	74	92,647.6	19	30,833.0	6	479,742.9

SOURCES: CENTRAL BANK OF NIGERIA, ANNUAL REPORT AND STATEMENT OF ACCOUNTS, 1997.

TABLE 17: VERTICAL FISCAL IMBALANCE IN NIGERIA, 1993-97.

Year	Revenue Share			Expenditure Share			Surplus/Deficiency		
	Federal	State	Local	Federal	State	Local	Federal	State	Local
1993	96.6	2.87	0.52	75.0	17.3	7.6	21.6	-14.3	-7.12
1994	94.3	5.1	0.56	68.2	23.7	8.1	26.1	-18.6	-7.50
1995	95.9	3.6	0.44	70.9	22.7	6.4	25.0	-19.1	-5.96
1996	96.0	3.6	0.38	72.7	21.2	6.1	23.3	-17.6	-5.70
1997	95.2	4.4	0.41	74.3	19.3	6.4	20.9	-14.9	-6.02

Source: Computed from CBN Annual Report, 1997

Table 18: Revenue raised by levels of governments, 1970-1997

Fiscal Year	Total Amount (₦ million)	Federal Government (%)₦ Million	State and Local Governments (%)₦ Million
1969/70	691.06	91.00	9.00
1970/71	1297.74	89.00	11.00
1971/72	1573.60	88.00	12.00
1972/73	1958.07	84.50	15.50
1973/74	5297.72	84.00	16.00
1974/75	6204.04	87.50	12.50
1975/76	7339.51	93.00	7.00
1976/77	8580.00	93.31	6.69
1977/78	7790.70	94.30	5.70
1978/79	11686.75	92.90	7.10
1979/80	16248.68	93.35	6.65
1981	14353.70	92.00	8.00
1982	12450.30	91.00	9.00
1983	11191.77	93.50	6.50
1984	12040.71	93.00	7.00
1985	16634.50	90.50	9.50
1986	14455.80	87.14	12.86
1987	27332.10	92.85	7.15
1988	29775.50	92.68	7.32
1989	55472.50	97.11	2.89
1990	100864.10	97.26	2.74
1991	104172.80	96.95	3.05
1992	195697.9	97.32	2.68
1993	196733.5	96.81	2.69
1994	210911.6	95.73	4.27
1995	475393.20	96.76	3.24
1996	541701.20	96.03	3.52
1997	609659.2	95.60	4.40

SOURCE: SAME AS TABLE 10

Why post-reform local governments in Nigeria should face this severe fiscal-stress is particularly difficult to understand when we take cognisance of the fact that there were conscious and coordinated efforts by the erstwhile regional governments to adequately fund pre-reform local authorities through a comprehensive system of grants in-aid consisting of general grants, specific and matching grants in addition to the assignment of tax powers to the authorities by the regions. Now, with a more autonomous system of local government and substantial improvements in the fiscal and financial positions of government one wonders why it should become difficult to adequately fund local governments in the Country.

RECOMMENDED SOLUTIONS

Against the background of a new democratic dispensation in Nigeria at the commencement of this new millennium, the need to examine ways and means of constitutionally strengthening the Nigerian local governments to enable them most effectively perform their numerous functions, becomes most compelling particularly in view of the argument that fiscal federalism:

> *Would be effective if the federal government would provide special grants for projects or programmes that it wants the State and Local Government to execute and, establish regulatory*

administration machinery to ensure that they are executed satisfactorily[14]

The following are considered crucial among other things to be done in order to empower the Nigerian Local Government.

(i) A complete review of the functions of each level of government will be very necessary. Such a review should take cognisance of the respective capabilities of each level of government to perform services assigned to it most effectively and efficiently. In this regard functions that are grassroots-based, like primary education, primary health care and agricultural production, should be wholly assigned to the local governments.

(ii) There is need for collective determination of the aggregate revenues required by the three tiers of Nigerian federalism as well as the oil and other mineral-producing communities of Nigeria. In other words, a balanced, fair, transparent and consensus-based framework for intergovernmental fiscal relations must be established.

(iii) With respect to the reassignment of tax powers, among other possible areas of reassignment we identify the following as requiring immediate attention. In the first place, the property tax and rating should be made entirely a local tax - in terms of not only assessment, but of fixing rates and collection. The other area to consider is the personal income tax - (pit) - (i.e. Payee) and direct assessment. Local governments should be empowered not just with collection of taxes within their areas of jurisdiction, but to retain the entire proceeds.

(iv) In the light of the proposed realignment of functions, there will be need to give local governments a larger share of the federation account, something in the region of 35 and 40 percents. The local governments must be given some degree of financial autonomy through the restructuring of the taxing powers. In other words, expenditure needs must be matched with revenue rights and fiscal jurisdiction. That is, revenue and expenditure decentralization must support the fiscal profile of the local governments. This means that decentralization of functions should be matched by decentralization of revenue collection.

(v) The infringement of revenue rights of local governments particularly by the States should be checked. In the first place, any transfers, from states to local governments, statutorily determined should be enforced. Secondly, all revenues accruing to the local governments should be transferred directly to them. In other words, the provision of section 162(5) of the constitution should be reviewed.

(vi) The power to raise revenue and incur expenditure, as appropriate, independent of the close supervision and control of another body is very paramount in any democratic dispensation. Local governments should therefore be allowed not just to collect revenues from their assigned sources, but also prepare, discuss, and approve their annual budgets. The state control of such process facilitated by section 7(i) of the constitution should be reviewed. This review, should allocate more resources to the local governments, given their closeness to the people compared to the remoteness of the federal and state governments to the same people.

(vii) Rights are of course necessarily accompanied by responsibilities, thus, fiscal discipline in terms of enhancement of local governments revenue efforts and the enforcement of efficiency standards in spending by each level of the three tiers will be very necessary.

(viii) Responsibility and accountability should be the guiding principles and operational mechanism of those charged with the management of local government affairs.

CONCLUSION

There cannot be a virile and dynamic local government system without ensuring that functions assigned to the local governments are properly aligned with tax powers or fiscal jurisdiction, and that designated revenue rights are guaranteed and adequately protected. Local government councils in Nigeria are charged with a number of responsibilities much of which touch on the welfare and living standards of large segments of the country's population particularly those living in the rural areas. Since the 1976 reforms, however, the councils have been grappling with a plethora of problems, relating, in large measure, to the delimitation of their fiscal jurisdiction and protection of their revenue rights. There has also been a severe erosion of their fiscal autonomy. These, combined with other institutional and structural problems, have rendered them functionally impotent in the areas of revenue generation and effective service delivery. Unfortunately, the 1999 constitution of the Federal Republic of Nigeria appears to contain provisions which are likely to worsen the hitherto shaky existence of the local government councils.

On a concluding note, we would contend that the above recommended solutions, if properly invoked, would emancipate the Nigerian local government councils from the manacling claws of constitutional strangulation and its accompanying operational dilemma with which they have staggered into the twenty-first century.

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