

## Centralisation of Intergovernmental Fiscal Power and the Lower Levels of Government in a Federation: The Nigerian Experience

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### KEY WORDS:

**ABSTRACT** The Centralisation of intergovernmental fiscal relations in Nigeria is today a major concern to the founders and builders of the Nigerian federation. The need to take some steps at reversing the centralisation has been realised because of the multitude of problems it has been causing. These are said to be traceable to the fiscal discomfort such centralisation has unleashed on the two lower levels of government. This paper, first, examines the effects of the centralisation on the two lower levels of government and second, suggests solutions towards reducing the effects. The increasing fiscal discomfort among the lower levels of government in a federation for that matter calls for reformation of intergovernmental fiscal relations.

### INTRODUCTION

The political entity called Nigeria today is known for its ethnic, linguistic and religious diversity. The reason being that it is made up of over 400 ethnic groups (Kirk-Greene, 1967) inhabiting an area of 923,768,000 square kilometres (Ujo, 2000. V). Three ethnic groups; the Hausa-Fulani in the North, Yoruba in the West and Ibo in the East are dominant. Others are the Kanuri, Tiv and Nupe in the North, the Efik and Ijaw in the East, and the Edo in the Mid-West. The northern part is almost predominantly Muslim while the eastern part is predominantly Christian. The West is part-Christian and part-Muslim and others scattered all over the place are pockets of animists. The relationship among the core groups has always been a thorny issue and is becoming more and more pronounced every blessed day.

The foundation of this problem-ridden relationship was built as far back as 1<sup>st</sup> May, 1906 when the colony and protectorate of Lagos and that of the Southern Nigeria were amalgamated by Sir Walter Egerton into the colony and protectorate of Southern Nigeria. The second and the more touchy phase was the amalgamation of the administrations of Northern and Southern

colonies and protectorates by Lord Frederick Lugard on 1<sup>st</sup> January, 1914 to form what is known as NIGERIA today. This relationship is being traced to the amalgamation partly because of the irreconcilable differences in vision, religion, ethnic traits, culture, resource-endowment, character, linguistic, and development of the ethnics. The second reason can be seen in the fact that the hallmark of such co-existence is the idea of a treaty and unfortunately the Nigerian state was built without one. In other words, the ethnic nationalities were not consulted and their agreement sought as to whether they would love to be part of a nation called Nigeria.

In 1946, Sir Arthur Richards restructured the country into three (3) regions, namely: Western, Northern and Eastern Regions, for administrative convenience. In October 1954, the federal constitution (named Lyttleton constitution) was introduced and enforced. Going by its provisions, a federal system of government was introduced with the three regions forming the units of the federation. It was believed that the system would allow each ethnic group to develop at its own rate whilst cooperating with others within the framework of a united Nigeria. She gained her political independence from British colonial rule on October 1<sup>st</sup>, 1960 and three years later, on October 1<sup>st</sup>, 1963, Nigeria became a Republic.

The 1963 Republican constitution retained most of the features of the 1954 constitution, including autonomy. The Regional autonomy was guaranteed and emphasized as demonstrated when residual legislative powers were vested in the regional assemblies. Although, for instance, the federal government retained fiscal powers over the principal sources of revenue in the federation (import and export duties, mining rents and royalties and some personal income taxes), most of the revenues so collected were returned to the regions on the basis of derivation.

The regional assemblies also had full legislative powers over internal borrowing and the personal income tax, although the federal parliament had powers to prevent double taxation.

Between 1960 and 1966, Nigeria battled with a lot of political problems, involving the struggle for power and ethnic rivalry, among other problems, which led to the fall of the first republic in 1966. On January 15, 1966, General Aguiyi Ironsi took over power and returned the nation to a Unitary system via his Unification Decree 34 of 24<sup>th</sup> May, 1966. This was upheld by General Yakubu Gowon's administration that took over in July 1966 rendering the states/regions to be subordinate, rather than coordinate

entities by the federal/central government.

It is known generally that the entry of the military brought about a centralisation of the country's political and administrative system partly for the above stated reasons. Another reason was the move towards abrogating the country's federal status due to some structural flaws of the Nigerian federal system. Accordingly, some of such flaws included the need to consolidate and balance the Nigerian national space, install certain basic national infrastructures (especially interstate roads, basic education, undertake land reforms,... and to ensure uniform standards of certain key rules

Table 1: Allocation of some Responsibilities in Nigeria

Level of Government	Responsibilities
Federal only	Defence Foreign Affairs International trade (including export and import) Currency, banking, borrowing, exchange control Use of water resources Shipping, Federal waterways Education Airways, railways, postal services Police and other security services Regulation of labour, industrial relations, urban housing, immigration Mines and minerals, nuclear energy, oil exploration and Mineral resources rights Social Security, tourism, national statistical system (prices, tariffs, debts, etc) Qualifications and basis for professional education Business Regulation Price control
Federal-State (shared)	Health, social welfare Education (primary and secondary) Culture Agriculture Miscellaneous, others Statistics, Survey, census Co-operation, industry Electricity (generation, transmission and distribution) Research services
State Only	Miscellaneous powers, functions and responsibilities reserved to the states by the constitution
Local Government	Economic planning and development Health services Land use Control and regulation of industries, professions, businesses Markets, public conveniences Social welfare, sewage and refuse disposal, regulation of tariffs, debts, mortgages, etc Primary, adult and technical education Development of agriculture and use of resources

Source: J.C. Anyanwu (1997) P.164

throughout the country) (Olowu, 1995:207)

From that time, powers have remained centralised under both the military and civilian administrations that followed. Such centralisation can be seen in terms of the emergence of a number of institutions like National Council on Establishment, National Security Council, National Economic Council, etc, and several other consultative bodies including the National Universities Commission and the Manpower Board (Olowu, Ibid). The centralisation can also be seen in the assignment of constitutional responsibilities (to the tiers of government) often spelt out in the Exclusive, Concurrent and Residual Lists of the country's constitutions. As at 1979 (1979 constitution) there were 66 items on the Exclusive List of the Federal Government, many others on the Concurrent List (parts I & II, section 4 of the second schedule) and 11 minor others reserved for the Local Governments (Fourth schedule). These were restructured and expanded by the 1999 constitution in favour of the Federal Government. The table below shows the allocation of some of the responsibilities.

The third area of centralisation of power in Nigeria can be seen in intergovernmental fiscal relations. This is the major area of concern of this work. The supremacy of the federal government in the share of Federation Account, assignment of tax jurisdiction, and the combination of these tilting both the Revenue and Expenditure structures of other tiers has generated dissatisfaction and suspicion among the ethnic groups as it has been described in many quarters as not being in tune with true federalism. This is so because ethnic groups (or units) are denied enough political space to feel free, unique and important in the evolution of a truly cooperative federalism.

Tracing the fiscal history, there has always been a surreptitious desire by the federal government to place enormous resource at its disposal since 1970 under the guise of ensuring national unity. Between 1947 and 1970, the two contending principles which guided revenue allocation were derivation and need, with Derivation having the advantage. With the promulgation of Decree Number 13 of 1970, the bulk of federally collected revenue started to go to the federal Government and reduced export duties that used to go to states from 100 per cent to 60 per cent (Dunmoye, 2002). The criteria for

share of Distributable Pool Account (DPA) were made 50 per cent each on population and equality (Abubakar, 1986:303 and Anyanwu, 1997: 188). Their (states') share of revenue from duties on motor fuel and excise duties was also reduced from 100 per cent to 50 per cent. Similarly, the state share of mining rents and royalties was reduced from 50 to 45 per cent (Ashwe 1986:34, Abubakar, Ibid: 303). Decree Number 9 of 1971 made the Federal Government the sole custodian and beneficiary of offshore petroleum rents and royalties. Decree Number 51 of 1972, tagged The Income Tax (Armed Forces and other persons) special provisions Decree made the personal income taxes of Armed Forces personnels, External Affairs Officers and Pensioners, payable to the Federal Government (Ashwe, 1986). Following this was Decree Number 6 of 1975 which emphasised the need to pass through the State Joint Account (SJA) all revenues to be shared by states. This excludes 20 per cent of on-shore mining rents and royalties belonging to the states of origin on the basis of derivation. This means a reduction from 45 per cent to 20 per cent of the states' share of on-shore mining rents and royalties as approved by Decree No 13 of 1970.

Several other attempts have been made to put in place an acceptable sharing formula but to no avail because fiscal power has always been centralised and almost rendering the two lower levels unviable. This is so first, because of the low percentage share of the Federation Account to the lower levels and secondly, because more than 90 per cent of their revenue comes from the Federation Account (Mbanefoh, 1993) as the federal government has successfully cornered to itself the major sources of revenue. Recent information show that there are about forty (40) tax levies in the tax system of Nigeria as approved by the military Government via Taxes and Levies (Approved list for collection) Decree 21 of 1998. The allocation of the tax jurisdiction has shown that the Federal Government taxes corporate bodies while the state and local governments tax individuals in most cases. Apart from this, as can be seen below, the Federal Government has extensive jurisdiction over the legislation, administration and collection of the major taxes. Even where the federal and state governments share jurisdiction, the former retains legislative power and share administration with the states.

In other words, whatever power is exercised at the state level is usually based on directives from the federal level. The implication of this is that there is a wide gap between the revenue of the federal government as compared with the two lower levels in the decades under consideration. Closely related to this is the expenditure structure of the three tiers. Due to the revenue imbalance there has been expenditure imbalance but the extent of the latter is lesser.

However, the centralisation of both the administrative/political and fiscal powers in the Nigerian federation has generated controversies and recurring clamour for fundamental restructuring of the country and the restoration of true federal principles in the allocation of revenue and constitutional responsibilities.

No doubt, such a unitary style of relationship in a federation can not go without its effects and the principal objective of this work is the determination of such effects.

### STATEMENT OF THE PROBLEM

As aforementioned, the centralisation of

power(s) in the Nigerian federation since the advent of the first military administration in 1966 is something of concern to all. Both the political/administrative and fiscal powers concentrated at the centre have generated a lot of problems and constitutional wranglings especially on how power and resources should be shared amongst the constituent units. Issues have been raised regarding alleged marginalisation, non-representative nature of Nigerian federation, and inequitable location of federal-funded infrastructures. Others include agitation for the introduction of Sharia judicial system (by some Northern states) and more recently agitation for resource control right by oil-producing states. While the federal government share of fiscal power is said to be on the high side by the revenue sharing rates and tax jurisdiction, the sharing principles imposed on the lower tiers of government are said to be lacking merit as they (principles) have always been favouring a section of the country. The major part of this work shall be devoted to the unravelling of the (negative) effects of the centralisation of power on the intergovernmental fiscal relations. This leads to the following questions.

Table 2: Nigeria's Major Taxes Jurisdiction (1999)

S/N	Type of Tax	Jurisdiction		Major Revenue
		Law	Administration and collection	
1	Tax on duties	Federal	Federal	Federal and Account
2	Excise duties	"	"	"
3	Stamp duties	"	"	"
4	Mining lease and royalties	"	"	"
5	Professional profession	"	"	"
6	Corporate Income tax	"	"	"
7	Capital Gains tax	Federal	Federal/State	State
8	Personal income tax (other than above 9 below)	Federal	State	State
9	Personal income tax on mining royalties, corporate Affairs offices, residents of FCT and Nigerian police force	Federal	Federal	Federal
10	License fee on advertisement and window sale	Federal	Local	Local
11	Stamp duties	Federal	Federal/State	State
12	Capital Transfer Tax (CTT)	Federal	State	State
13	Value Added Tax (VAT)	Federal	Federal/State	Federal/State, Local
14	Public betting and club betting taxes	State	State	State
15	Motor Vehicle and Drivers' license	State	State	State
16	State income tax	State	State	State
17	Land Registration and survey fee	State	State	State/Local
18	Property taxes and stamp	State	Local	Local
19	Motor and trading license and fee	State	Local	Local

Source: Adapted from Ayojobi et al (1997)

1 No longer imposed

- (a) To what extent has fiscal power been centralized?
- (b) How has such centralisation affected the Nigerian federation?
- (c) What alternative arrangement can be suggested?

### **DISCUSSING FEDERALISM AND ITS ALLIES**

The Nigerian federation is made up of over 400 ethnic groups (as mentioned above) and as at the time when Nigerian federation was designed, it was a baby of necessity. This is so because federation is usually viewed as a form of governmental institutional structure deliberately designed to cope with twin, but difficult, task of maintaining unity while also preserving diversity (Jinadu 1979:15). The federal model is particularly appropriate to countries with diverse cultures, (and religions, ethnic traits, vision, resource-endowment, character, and so on) and one of its essential elements is that it institutionalises social divisions by creating mechanisms for the articulation of such diversity in the hope of forging unity through diversity. (Olowu, 1995). Federalism is simply the method of dividing powers so that the general (federal) and regional (state) governments are each, within a sphere, coordinate and independent (Wheare, 1963:10). He then listed the following as the federal principles: the division of powers among the levels of government; written Constitution showing this division; each component government must be independent within its own sphere of competence; the constitution not amendable by one level of government alone, and lastly, the existence of a supreme court to act as an umpire. Dunmoye (2002) added two others: first, 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 under the constitution, such that, as much as possible, each tier is financially independent of each other (at least in theory), 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).

One can deduce from the foregoing that non-centralisation of power and authority goes with

a federal system of government. Despite this, it is important to mention that out of about 22 federations in the world, none can be said to have conformed to Kenneth Wheare's model. There are as many variations of the model as there are federations in the world. This is referred to as spectrum of federalism by Livingstone (1968:25). This has led some scholars in recent times to attempt to redefine the essential characteristics of federal political systems by studying the administrative and financial arrangements within, rather than the legal aspect of federal systems.

The forms which federation takes include: political, administrative and fiscal (Taiwo, 1999). Political federalism is concerned with the division of powers among the tiers of government where the tiers are each within a sphere, coordinate and interdependent (Oates, 1972: 16, Asobie 1998:15). On the other hand, Administrative federalism has to do with the delegation of functions to lower levels of government. The third form, which is the most relevant to this work, is fiscal federalism. Fiscal federalism, which is also referred to as intergovernmental fiscal relations, is essentially about the financial relations between and among the units of government in a federal system.

Before dilating on fiscal federalism, it is important to mention that Federalism and Intergovernmental Relations (IGR) are two different but inseparable concepts in the course of governance. Our discussion about federalism will be incomplete without making reference to the concept of IGR. This is so because IGR is an important feature and/or ingredient of a federal state, wherein the relationships between the federal or national government and other tiers or levels are formally spelt out in the constitution. No doubt, a federal state is a problematic one due to its diverse nature and it is IGR that serves as a mechanism for dealing with the complexities arising from it. The complexities must not be left to chances as the division of power/functional tasks (for example) among different levels of government is a perennial source of tension and uncertainty (ACIR, 1980:301). This is so because there is no way by which power will be distributed without some overlap, which is better resolved by cooperation resulting from IGR. The establishment in Nigeria of the National Council on Intergovernmental Relations (NCIR)

in 1992 through Decree 89 (though abolished by the Abacha administration in 1996) confirms the recognition of IGR as an indispensable institutional mechanism for dealing with the complexities of federalism. This can be seen with the mission of the NCIR, which among other things, was to closely monitor the operations of the federal system and play mediatory roles towards solving conflicts between the federal, state, and local governments. Both the 1979 and 1989 Federal Republic of Nigeria's constitutions gave legal backing to IGR. Conclusively, IGR can simply be defined in the words of Adamolekun (1983:89) as the interactions that take place among the different levels of government within a state. This corroborates that of Wright (1980) who defined it as the continuous day-to-day pattern of contacts, knowledge, and evaluation of government officials including their formal and informal interactions. Hahn and Levine (1980) said IGR includes all the permutations, combinations and intricacies of relations among the levels of government (in a federal structure). IGR recognises not only national-state, and inter-state relations, but also national-local, state-local, national-state-local and inter-local relations (Wright, *Ibid*: 275). One of the matters arising from IGR is the inter-governmental fiscal relations. Undoubtedly, finance has emerged the most critical policy issue in IGR in every administrative system since the Second World War (Adamolekun, 1983). In the same vein, it has been ascribed that fiscal transfer among the component units and between the different levels of government in the form of statutory allocation and various structures of grants is a central feature of IGR (Abubakar, 1986:254). The main issues in intergovernmental fiscal relations therefore concern spending responsibilities, revenue-raising responsibility, intergovernmental transfers and administrative aspects of fiscal decentralisation (Ter-Minassian, 1997). The nature of intergovernmental fiscal relations prevailing in a country will depend largely on the form of government that is being operated in such a country.

### **Intergovernmental Fiscal Relations /Fiscal Federalism**

As aforementioned, fiscal federalism is one of the forms of federalism concerned about

financial relations between and among the tiers of government. In the words of Oates (1972:16-20) and Tanzi (1995: 297), fiscal federalism is about the allocation of government spending and resources to the tiers of government. It 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. The share of fiscal statutory power/resources which is one of the factors that can vitiate or ruin a viable federation, consists essentially of three decisions:

- (i) determining what taxes and related revenues 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
- (iii) what criteria or set of criteria to apply in sharing revenues among the state and local governments. (Abubakar, 1986 : 255)

The problems of fiscal federalism or intergovernmental fiscal relations centre around the need to balance between expenditure and tax assignment for the various levels of government. They are also concerned with the horizontal balance among various units of government at the same level such as among the states and among various local governments. In other words, according to Anyanwu (1997:160), Intergovernmental fiscal relations assume two principal dimensions: budgetary influence between levels of government, which is known as the area of "Vertical" intergovernmental fiscal relations, and (the other) budgetary influence between different government units at the same level, which is known as the area of

"horizontal" intergovernmental fiscal relations. The latter type of inter-relationship is possible only at the state and local levels of government where more than one unit of government exists, he added. If fiscal imbalance occurs horizontally between different units of government at the same level of government in a federation it is referred to as the problem of equalisation or horizontal fiscal imbalance (Anyanwu, *Ibid*:172 ).

The general objectives of fiscal relations in an ideal federation, according to Litvack and Wallich (1993) and Sewell and Wallich (1994) include:



- (a) To ensure correspondence between sub-national expenditure responsibilities and their financial resources (including transfers from the central government) so that functions assigned to sub-national governments can be effectively carried out.
- (b) Increase the autonomy of sub-national governments 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 sub-national governments in appropriate areas in order to increase the efficiency of public spending and improve the accountability of sub-national officials to their constituents in the provision of sub-national services.
- (e) Incorporate intergovernmental transfers that are administratively simple, transparent and based on objective, stable, non-negotiated criteria, and so on.
- (f) Minimise administrative costs and, thereby, economise on scarce administrative resource.
- (g) Incorporate mechanisms to support public infrastructure development and its appropriate financing.
- (h) Support the emergence of governmental role that is consistent with market-oriented reform.
- (i) Be consistent with nationally agreed income distribution goals.

It is necessary to note that different countries attach different priorities to each of these objectives, and choices will have to be made since not all these objectives can be achieved simultaneously.

The two main issues of intergovernmental fiscal relations are:

- (i) Tax Assignment
- ii) Revenue sharing arrangement

#### **(i) Tax Assignment/ jurisdiction**

Tax Assignment is basically about the level of government that should tax what and how, thereby providing various levels of government with revenue they can control under fiscal arrangement. By this, the tax jurisdiction of each level is defined, and efficiency is always the basis. Where the distribution of functions does not rest on and, in fact, does not guarantee an adequate and independent revenue base, then

the canon of fiscal federalism is bastardised and is in jeopardy. Ideally, therefore, tax jurisdiction should guarantee the fiscal autonomy of each level of government (Phillips, 1971).

Tax assignment has three main attributes, namely: Power to legislate and set rates, the power of administration, and the right to revenue collected. For federalism to succeed there must be fiscal authority over changing the tax bases allocated to it. In practice however, limited autonomy is given to the lower tiers of government in this area so that a uniform rate of taxation can be maintained across the country. However, efficiency requires that the taxing powers be vested in that level of government most likely to administer the taxes at the least cost. For this reason, taxing powers on sources which cut across states and which are major sources of revenue are vested in the central government, while those sources that cut across local government boundaries within a state are vested in the state government. Other criteria that can serve as guide in this wise include: progressive and redistributive taxes should be centralised (e.g. personal income tax and corporate income tax), taxes for economic stabilisation (such as import duties) should also be centralised, taxes in mobile factors of production (e.g. gains taxes) should be centralised, Residence-based taxes (e.g. sales/ excise and retail taxes) can be decentralised, Benefit taxes/user charges are usually assigned to the level of government that provides the service (such as toll gate levies, hospital and education fees, motor licences, etc), taxes on immobile factors of production such as land and buildings are assigned to local governments (e.g. property taxes), and lastly taxes on natural resources should be assigned to the central government, for the sake of administrative efficiency and uniform practice since the major projects in this field often involve big multinational corporations. Detailed table on tax assignment has been generated in the earlier part of this work. It can be seen from the Table 2 above that the major revenue heads in the country, including custom duties, mining rents and royalties, petroleum profit tax and company income tax all of which account for about 80 per cent of total national recurrent revenues, fall under the legislative and administrative jurisdiction of the federal government while the less productive and less buoyant sources are devolved to the fiscal jurisdiction of state

and local governments (Olowononi, 1999:194). This has always been a major source of conflict and basis (partly) to the recent agitation of some federating units for resource control. The agitation, by implication, concerns financial autonomy, which will in no small measure reduce, prevent and manage ethnic conflicts, the central concern of federalism.

The method of assigning tax jurisdictions among the tiers of government is one of such options. There are two other options as mentioned by Ebajemito and Abudu (1999:218). The first is to assign all tax bases to local jurisdiction and then require them to transfer part of the revenue upward, to allow the central government meet its spending responsibilities. This option hinders effective income distribution and fiscal stabilization. The second option is that all tax powers are retained by the centre from which grants or other transfers are made to the regions/states and local governments as practised in France, Italy, and the Netherlands. This system has been criticized as highly unsuitable for a federal state as it separates spending authority from revenue-raising responsibilities which are the basic prerequisites for a federal system of government.

Value Added Tax (VAT) and Education Tax are worth mentioning in the discussion of Tax assignment or tax jurisdiction. A recent effort to boost the revenue of government was the introduction of VAT. It was introduced in Nigeria on January 1, 1994 to replace Sales Tax following the recommendation of a study group set up by Federal Government on the reform of indirect taxation in Nigeria. The tax covers various categories of goods and services with a single rate of 5 per cent. It is collectable to the Federal Government only and shared among the three tiers as presented on the table below:

(ii) CBN Annual Report and Statement of Account for the year ended 31<sup>st</sup> December, 1999 (p.31)

Note:- (i) The state/local governments' share is to be distributed among them on the basis of 50% equally, 30% based on population and 20% on derivation.

(ii) FIRS means Federal Inland Revenue Service

Education Tax is the second which is 2 per cent of companies' annual profits payable into Education Tax Fund (ETF) for monitoring and

Table 3: Share of VAT

Year	State	Local	Federal	Total
1994	50%	30%	20%	100%
1995	50%	30%	20%	100%
1996	50%	30%	20%	100%
1997	50%	30%	20%	100%
1998	50%	30%	20%	100%
1999	50%	30%	20%	100%

Sources: (i) Seyi OJO (1999:178)

disbursement for the benefit of the three tiers of government. The tax is managed by a board of trustees (ETD 1993, sec 4) as constituted by the Federal Government. The disbursement is as follows: Higher Education (50%), Primary Education (40%) and Secondary Education (10%). The share of higher education is further shared among the Universities, Polytechnics and Colleges of Education in ratio 2:1:1 {ETD 1993, sec 5 (2) & (3)}.

### (ii) Revenue Sharing Arrangement

Revenue sharing arrangement has always been a thorny issue because of frequent constitutional wrangling on how resources should be shared among the constituent units. Naturally, a federation like Nigeria (that is large) is comprised of both poor and relatively rich units. The poor ones will always want a redistributive system of federal resources while the richer or more endowed states will always favour more financial autonomy and revenue allocation based on the relative contribution of the constituent unit to the federal purse.

Revenue sharing arrangement is both vertical and horizontal. The revenue is shared vertically among the three tiers of government, and horizontally among the units within the same level of government on the basis of a number of factors or principles like population, internal revenue effort, land mass, and so on.

The major problem in revenue sharing is how to evolve an acceptable formula, comprising the sharing rates and sharing principles. This is as a result of both vertical and horizontal fiscal imbalances that the lower tiers of government have been experiencing especially from 1970. There have always being a fiscal mismatch between the expenditure responsibilities of the different tiers of government and their revenue-



raising capabilities (Ashwe, 1986:82). This controversy that usually surrounds sharing in the history of Nigeria can be traced back to the 1940's. This led to series of ad hoc committees/commissions established at one time or the other to advise the government while at some other times amendments were made by use of Decrees and Budget speeches/ Pronouncements. According to Adebisi (1999), some of these are:

- (i) Sir Sydney Philipson Commission (1946)
- (ii) Hicks-Philipson Commission (1951)
- (iii) Chick Commission (1953)
- (iv) Raisman Commission (1958)
- (v) Binns Commission (1964)
- (vi) Decree No 15 of 1967
- (vii) Dina Commission (1968) (viii) Decree No 13 of 1970
- (ix) Decree No 9 of 1971
- (x) Decree No 51 of 1972
- (xi) Decree No 6 of 1975
- (xii) Aboyade Technical Committee (1977)
- (xiii) Okigbo Commission (1980)
- (xiv) Allocation of Revenue Act of 1981
- (xv) Decree No. 36 of 1984
- (xvi) Allocation of Revenue Act of 1981
- (xv) Decree No 36 of 1984
- (xvi) Budget speech of 1990 (as recommended by National Revenue Mobilization, Allocation and Fiscal Commission)

- (xvii) Budget speech of 1992
- (xviii) Announcement of June 6, 1992
- (xix) 1999 Constitution (Partial Implementation of 13 per cent Derivation principle).

These amendments have given rise to changes in both the vertical and horizontal distribution formulae as summarised on tables 4 and 5 below.

**Note:** (i) b Shows that the 2% is not of the federation Account but of the mineral revenue component of the 32.5 of the federation Account.

(ii) c shows that the 1.5% of the revenue accruing to the Federation Account derived from the mineral producing areas.

(iii) The 13% derivation is of the revenue accruing to the Federation Account directly from any natural resources (1999 constitution).

The Horizontal distribution formula had remained almost stable since 1981 except for the increase in Derivation principle for mineral revenue to 13 per cent in 1999 (1999 Constitution of the FRN). This is summarised below:

A major phenomenon in revenue distribution in Nigeria since 1989 is the deduction of what are classified as "First Charges". These can simply be interpreted to mean a portion of the Federation Account classified and described as national projects before the balance is paid into the Account for sharing. Examples of such first charges include Joint Venture Companies Cash calls, External debt, subsidy on domestic crude, transfer to PTDF, 13 per cent National

Table 4: Vertical allocation of the federation account (1980-to date)

	1980	1981	1982	1983	1984	1985	1986	1987
1 Federal Government	55.0	55.0	55.0	55.0	50.0	50.0	48.5	48.5
2 Regional State governments	30.0	30.5	34.5	32.5	30.0	25.0	24.0	24.0
3 Local Governments	10.0	10.0	10.0	10.0	15.0	20.0	20.0	20.0
4 Special Funds	7.0	4.5	0.5	2.5	5.0	5.0	7.5	7.5
(i) Federal Capital Territory	N/A	-	N/A	-	1.0	1.0	1.0	1.0
(ii) Derivation	N/A	2.0	N/A	2.0	1.0	1.0	1.0	13% derivation principle partially implemented
(iii) Development of oil mineral producing areas	N/A	1.5	N/A	1.5	1.5	1.5	3.0	3.0
(iv) Federal Ecology	N/A	1.0	N/A	1.0	1.0	1.0	2.0	2.0
(v) Security Subsidies	N/A	-	0.5	-	0.5	1.5	0.5	0.5
<b>Total</b>	<b>100.0</b>							

Sources: Adapted from  
 (i) The Guardian of Tuesday Sept. 12, 2000 (pg. 53).  
 Anyanwu J.C (1997) p.190

Table 5: Horizontal Revenue Allocation (Among States) Formulae Criteria

Criteria	1976-1979	1979-1987	1987-1996	1996-2001
(1) Constitutional Requirements				
- Devolution (Equality of States)	30.0	40.0	40.0	40.0
(2) Population	30.0	40.0	40.0	30.0
(3) Social Development Funds	-	15.0	15.0	10.0
(a) Primary School Enrolment				
- Direct Enrolment		-	11.25	-
- Indirect Enrolment		-	3.75	-
(b) Education		-	-	4.0
(c) Health		-	-	3.0
(d) Water		-	-	3.0
(4) Landless and Tenants	-	-	-	10.0
(5) National Revenue Share	-	5.0	5.0	10.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Adapted from Anyanwu (1997) pp 188, 189 & 191

Resources Derivation Fund, NNPC Priority Project Fund, and National Judicial Council. These first charges have been described variously as dictatorial practice of the military illustrating clearly that the military were not interested in Nigeria operating federalism and its corollary fiscal federalism. The belief in many quarters is that the country's political, social and economic developments have been the worse for it since the military abolished the "fair shares" principle. Towards ensuring fairness, the correct just and fair procedure will be to create a Federation Account for the purpose of receiving all federally collected revenues less the agreed collection fees where applicable. The state governments will also be obliged to open such a common-ownership account for all designated revenues, which they may collect in their operations with Local Governments.

#### ASSESSING THE CENTRALISATION OF THE FISCAL ARRANGEMENT

The alleged centralisation of the fiscal arrangement can be assessed under two sub-headings:

1. The share of Federation Account
2. Tax assignment/jurisdiction

##### 1. The Share of Federation Account

As mentioned earlier on, the share of Federation Account presents the most intractable problem in Nigeria's fiscal federalism. It has

been impossible to obtain generally acceptable formula for both vertical and horizontal distribution of revenue. The issue is that the distribution of the Federation Account shows clearly fiscal imbalance because of the vertical sharing that can be said to be steep in nature. As it can be seen on the above table, although the data for period between 1970 and 1979 are incomplete, the Federal Government's average percentage for the period 1980-2001 is 58.0 while those of state and local governments are 30 and 12 per cent respectively. These percentages exclude the elements under special funds (that are managed by the federal government) as well as those classified as first charges that are normally deducted from the Federation Account before sharing the balance among the tiers. To further show the lopsidedness in the sharing, it is important to add that the 58 per cent share of the Federal Government is meant for itself alone whereas the 30 per cent share of the states was normally shared among nineteen (19) states between 1976 and 1987, 21 states between 1987 and 1991, 30 States between 1991 and 1996 and 36 states from 1996 to date. The Local Governments' share of 12 percent was also shared among 299 local governments between 1970 and 1979, 301 between 1979 and 1981, 781 between 1981 and 1984, 301 between 1984 and 1987, 449 between 1987 and 1991, 500 and 589 between 1991 and 1996 and 774 from 1996 to date (Ekpo, 1994; Anyanwu, 1997: 3). The formulae for sharing these are as presented on tables 4 and 5.

Closely related to this is the horizontal revenue sharing bases/principles, the attack of which is on the increase. The emphasis on *population* is the most important issue because of the claims that population figures were manipulated in favour of some states. Further to this, the progressive decline of weights on **derivation** principle for revenue sharing has also been criticised. The argument in support of this principle is often made for retention of the tax revenue generated by the area of origin (Resource Control). The principle is being applied to personal income and Property taxes as the states and local governments from which these taxes are collected are allowed under the law to retain them. The application of this principle to the natural mineral deposits has been difficult to accept wholly with the claim that it would cause national development imbalance. The argument of the would-be favoured states has always been that once the use of land mass as basis for sharing revenue favours a section of the country and it is not causing development imbalance, why is it that the use of derivation (the normal way) should be something of concern to the political office holders. No doubt, the use of **Landmass and terrain** undermines the interest of the states with small landmass. The thinking in some quarters is that this criterion makes no sense and politically motivated and should be excluded from the revenue allocation system more so that it is not normally considered in revenue allocation arrangements in other parts of the world.

Horizontal allocation of revenue among the states appears on the surface of it to be straightforward and less controversial. This is far from truth because the aim of revenue allocation is to provide adequately for the administration of state and local governments and at the same time induce them to generate internal revenue for their use. Due to the increase in the number of state and local governments, the percentage of 40 assigned to **Equality** of State/Local governments presently is on the low side. Also, Philips (1975, 1980) has argued that the principle of equality of states is meaningless except as a political or legal concept. This is so because the states are not equal in any economic sense. To use a principle that does not have any sound economic justification and to attach a weight of 40 percent to it seems to be greatest flaw of

the existing revenue sharing scheme (Ashwe, 1986). According to Ashwe, this argument is reasonable and valid if and only if the smaller state is also the poorer state. If the smaller state in population and size is also a rich state, then giving the same grants to the smaller state and a larger (and poorer) state will widen rather than narrow income inequalities. Equal grants to all states will result in higher per capital grants in the smaller than in the larger states.

The weight of 10 percent assigned to **Social Development Effort** is on the low side. This criterion should be taken as proxy for direct enrolment in educational institutions. No room ought to have been provided for inverse enrolment unless we want to create the impression that Nigeria places premium on illiteracy and educational underdevelopment. Also, a more equitable scheme would be to split the factor's share equally between direct enrolment and inverse enrolment (Ashwe, 1986). Other proxies for social development factor such as health and water should not be entertained as states are normally expected to provide for these amenities from all their revenue sources including internally generated revenue.

Similarly, in order to achieve self-sufficiency, the weight attached to **Internal revenue Effort** is too small if the government is serious about encouraging the lower levels of government to improve on their revenue drive. The only reservation here is that it will only be favourable to those state/local governments with greater taxable capacities, thereby rendering the need to raise the percentage unnecessary.

## (2) Tax Assignment/Jurisdiction

Apart from the share of the Federation Account favouring the federal government, the share of Tax assignment or Tax jurisdiction is yet another area to be considered. For each tier of government to execute the responsibilities assigned to it, it accesses funds through assigned tax bases to complement federal sources. It is unfortunate to note that these lower tiers of government have been experiencing low internal revenue as a result of the types of taxes assigned to them. These levels of government are assigned with minor taxes (as itemised elsewhere above), which unfortunately have low yields and high cost of administration. The governments are

therefore depending largely on the Federation Account and VAT revenues to execute their programmes. This has reflected on the internal revenue of the lower levels of government.

The combination of the lopsidedness in the share of Federation Account, Tax jurisdiction and other federal fund support has, in effect, reflected on the revenue and expenditure structures of the two lower levels. Below is the picture of the Current Revenue structures of the two lower levels of government between 1980 and 2001 (Tables 7 & 8) in the appendix.

#### **THE CENTRALISATION AND ITS (NEGATIVE) IMPACTS**

The impact of the centralisation of intergovernmental fiscal power in Nigerian federation has been enormous, especially on the two lower levels of government.

First and foremost is that the centralisation of fiscal power to the centre prevents the two lower levels from enjoying the principle of self-determination that usually goes with the concept of federalism. Naturally, states are created in a federation to enable the people to be free and independent and have access to rights and privileges within the state to which they belong. These are almost, if not totally impossible in a situation existing in Nigeria whereby the fiscal power is highly centralised to the federal level. Hardly can any state or local government plan on its own to prosecute a project without federal financial support by way of allocation. This can be evident in the ratio of internally generated revenue of the levels to the external or federal sources. Tables 7 and 8 shall help us in analysing the ratio. Table 7 shows the State governments' revenue structure between 1980 and 2001 while table 8 shows that of the local governments. As can be seen on Table 7, the states revenue structure shows that the ratio of independent or internally generated revenue of the total revenue is averagely 18.3 per cent between 1990 and 2001. Table 8 also shows that the ratio of the local governments' independent or internally generated revenue of the total revenue is at about 16.2 per cent also between 1980 and 2001. The meaning of this is that the dependency rate of state and local governments on external or federal sources is to the tune of about 81.7 and 83.8 per cent respectively, which

can not permit self-determination in a federation. The heavy dependence on federal funding tends to lead to lack of direction and utter neglect of important projects.

Closely associated to this is the fact of self fulfilment which is one of the reasons for creating states and local governments. According to Okadigbo (1982 : 97), the age fulfils itself most when it serves itself. He added that when a person does what he considers to be right or necessary, desirable or pleasurable, he fulfils himself. The same applies to an organised group of persons that please themselves, help themselves, advance their own interest, materialise their ideals, and lastly attempt their own dreams. These are unachievable in a situation where the fiscal power is centralised to the centre.

One of the political objectives of the Nigerian government, as spelt out in section 15 of the 1999 Constitution is the call for encouragement of national integration. This requires that the state shall foster the feeling of belonging and involvement among the various peoples of the federation. The section 17(1) of the same constitution stated that the state social order is founded on ideals of Freedom, Equality and Justice. The centralisation of the fiscal power shall inhibit the achievement of these objectives. This is so because fiscal power is an important instrument of national integration.

The practice of a centralised fiscal federalism also impedes economic viability of most of the states and local governments. Economic viability, in terms of human, material and financial resources, is one of the pre-conditions for state or local government creation. The truth of it is that only a handful number of states like Lagos, Rivers and Kano can claim to meet this condition under the present practice as almost all of them are depending in varying degrees on the federal allocation. The economic viability of the states and local governments can be assured through a fair process of exchanges and the redistributive actions of the Federal Government.

One of the reasons that is usually adduced for creating states or local governments is to ensure even development. This is a mere mirage as the centre or federal government has arrogated so much power, fiscal power inclusive, to itself. Even the indirect assistance or support that the federal government used to give to the lower tiers, in terms of infrastructural development,

is often politicised. The operations of the disbanded Petroleum Trust Fund (PTF) can be cited here because it was evidently established then to assist in developing a particular part of the country and Chuks Iloegbunam concluded by giving the analysis of the Fund's project implementation (during its existence) along the six (6) geopolitical Zones as follows:

North-West	43.3%
North-Central	17.4%
North-East	15.0%
South-West	10.6%
South-South	8.15%
South-East	5.6%

(Source: Sunday Punch of January 28, 2001, p. 16)

The growth of the activities of ethnic militants and ethnic conflicts, especially among the minority ethnic groups, is alarming today in Nigeria. This is traceable partly to their dissatisfaction with the practice of federalism and especially its corollary fiscal federalism. The multi-national oil companies also bear their own brunt of the militants' activities, meaning a threat to the Nigerian (monolithic) economy.

That the monolithic nature of the Nigerian economy is traceable to her centralised fiscal power is yet another point of concern. It is of a fact that the Nigerian economy depends on oil mainly for its revenue. This situation persists because, in her expression of the powerful centre, other natural resources that the two lower tiers could have tapped, developed and exported for revenue generation, are being restricted to the centre, lying fallow and thereby causing 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 through it is due to its present importance in the world economy which may not remain so for life since technology is improved upon almost everyday.

Lastly, the centralised fiscal power also makes its mark in the political sphere. The stability of the political entity called Nigeria is being threatened because of the centre that is too powerful politically and economically. This can be seen in desperate bid of the (major) ethnic groups to ensure that their kinsmen are elected president. This situation is clear, the direction of the flow of national wealth is often dictated by the sway of political power.

### **Towards reducing the fiscal discontentment among the Lower Levels of Government**

In order to reduce the discontentment resulting from the centralised intergovernmental fiscal power, a number of steps are hereby suggested.

First, there is need to review the revenue allocation formula in which the importance of bringing government closer to the people, by creating state and local governments, is put into consideration. These two lower levels of government make people or communities perceive that they are obtaining a fair share of public resources. These explain the reason why some degree of fiscal autonomy is deserved by these lower levels of government to be able to satisfy the yearnings and aspirations of the people. This may require the vertical sharing rate that will favour the lower levels more than the federal (or central) government. The responsibilities and the revenue sources/powers of these lower levels of government have to be realigned for equity, fairness and justice.

Closely related to this is to evolve a revenue sharing formula in which the derivation principle will be a key component. This is like returning to the pre-military era of 1966 when derivation principle was prominent in the revenue sharing. Apart from the fact that the principle will encourage the lower levels of government to continue to improve on the internal revenue drive/effort, the economy will be moved away from its monolithic nature as the states and local governments will do everything possible to develop and exploit the natural resources in their areas to generate fund and contribute to the central purse.

There is also the need to re-examine the assignment of tax jurisdictions among the three levels of government. The present situation in which, out of its centralised fiscal power, the federal government assigns to itself the major tax sources is not being fair to the lower levels of government. The principle of optimal revenue structure should be upheld. This principle holds that tax legislation could be centralised but with possible participation of the lower levels. In other words, there should be partial decentralisation of tax legislation. This indicates that tax sources should be assigned to specific levels but each



of which should be granted full authority over legislation, administration and entitlement of its own taxes. By this full authority, there will be unrestricted tax competition so that each level of government can draw on any tax source. The centralised tax power/jurisdiction and revenue sharing rate have been tilting the revenue and expenditure structures of the two lower levels of government in Nigeria.

Fourth, there is need to reduce the expenditure of the lower levels of government. This can be done by providing financial support to the lower levels in the area of education. It is well known that education (primary and secondary) is one of the largest areas of expenditure by both the states and local governments, especially in the south. Such a reduction in expenditure will mean a healthier fiscal situation of the levels.

Buying the idea of Olomola (1999:495), there is need for stabilising the structure of the federation at the state and local levels. The politicised state and local government creation especially from 1976 has been worsening the performance of the fiscal system. There were nineteen (19) states in 1976, and rose to thirty-six (36) in 1996 and two hundred and ninety-nine (299) local governments in 1976 and rose to seven hundred and seventy-four (774) in 1996 (Ekpo, 1994). The increased number of states and local governments has led to declining revenue allocation to the individual states and local governments which forced them to become increasingly dependent on the federal government for special allocations and grants even to perform basic statutory functions, Olomola added. There is need for proper guidelines for state and local government creation. To stabilise the structure of the Nigerian federation also, necessary caution must be taken in creating state and local governments. The arrangement under the present democratic administration whereby the states are granted power to create local governments will make nonsense of the whole issue. There is need to centralise the creation to ensure sanity and a healthy fiscal arrangement. If the power to create local governments will still continue to reside in the states, there may be need to stop direct allocation of fund to local governments from the Federation Account. An arrangement could then be evolved such that the local governments in each state will be funded from the state's share

of the federal sources of fund.

The content of the Federation Account is yet another area of concern. This needs to be reviewed as there are still many avenues of leakage. The treatment of the sale of gas separate from crude oil and the surpluses recorded by the Central Bank of Nigeria (CBN) and other parastatals (like NNPC, NITEL, NEPA, and so on) should be looked into. Closely related to this is the need to stop forth with the practice of deducting what is tagged "first charges" from the Federation Account. The deduction, as was introduced in 1989 by the military, is a substantial portion of the Federation Account reserved by the Federal Government allegedly for the purpose of executing national projects before paying the rest into the Federation Account for distribution among the three (3) levels of government. These deductions have also been outlawed by the Supreme Court in its judgement on the resent Resource Control Suit.

## CONCLUSION

We have been able to show the lopsidedness in the intergovernmental fiscal relations in the Nigerian federation resulting from the vertical distribution of revenue and the tax jurisdiction. The two lower levels of government have been treated like mere appendages rather than a part of a truly federal system to which fiscal autonomy should be granted and assured. The relationship has incapacitated the lower levels in their quest to perform their constitutionally assigned responsibilities. It has also precipitated a high level of distrust among the ethnic groups, thereby worsening the fragile state of the Nigerian federation due to its attendant conflicts and crises. A number of solutions have been proffered. The concluding remark is that the existence of the Federal Government is more assured when enabling environment is provided for the federating units to fully realise the yearnings and aspirations of the people through a higher degree of fiscal comfort.

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	1974	4370.7				N.A
	1975	5294.1				N.A
	1976	6470.1				N.A
	1977	7703.1				N.A
	1978	4588.5				N.A
	1979	8555.8				N.A
		261.4				
		100.0				
		250.0				
		150.0				
		261.4				
		352.6		24		2
		1085.0		37		10
		1081.7		34		12
		976.9		31		10
		1061.5		27		10
		1327.5		24		10
		1166.9		28		11
		2117.8		27		9
		2727.1		32		10
		3399.8		31		10
		7680.0		34		16
		10,764.8		34		18
		16,488.0		31		21
		18,316.4		28		19
		17,321.3		29		17
		17,983.4		29		13
		16,569.7		30		12
		22,300.5		29		13
		30,199.3		27		14
		43,870.3		29		12
		115,053.9		29		13
		118,095.7		38		11
		N.A		N.A		N.A
		N.A		N.A		N.A
		N.A		N.A		N.A
		N.A		N.A		N.A

Sources: (i) CBN Annual Reports for Various Years (ii) CBN Statistical Bulletin (vol. 10 No. 1, June 1999) (iii) Anyanwu (1997) pp. 128-131 (iv) Ekpo (1999) p. 246

Note:- (1) This table considers the portion shared among the tiers of government only. The value classified under "special funds" not included. (2) \* means provisional (3) The percentages are as calculated by the researcher.

Table 7 : Current Revenue Structure of State Governments

Year	(P Value)	Account (P Value)	TD	TD	(P Value)	TD	(P Value)	TD	Food (P Value)	TD	
1980	1847 I	N.A.			11377		111 T		N.A.		
1981	2965 T	N.A.			N.A.		141 G		N.A.		
1982	5171 S	N.A.			11258		7* 9		N.A.		
1983	*8* S	N.A.			N.A.		TE D		N.A.		
1984	*501 S	N.A.			11811		58 E		N.A.		
1985	*8* 9	1160 E			158* 1		N.A.		N.A.		
1986	*70* *	18*7 E			18606		N.A.		N.A.		
1987	8151 G	6197 I			195* S		N.A.		N.A.		
1988	1016 D	8181 E			21788		N.A.		N.A.		
1989	11501 I	9899 E			16031		N.A.		N.A.		
1990	19,967 *	16178 E	12		17617		670 S		156 *	1	
1991	2*7721	197*1 I	10		11811	1*	1782 D		*66 E	1	
1992	12671 G	2**97 I	75		21** T	17	967 I		197* 1	6	
1993	177* D6	17660 G			27161	16	1621 S		1711 I	7	
1994	*900 G	19006 E	77		109198	15	7*78 I		1065 I	1	
1995	6800 I D	18677 *	29	2036 D	10	17287 I	11	2329 T		*16 I	1
1996	87801 *	*1636 *	57	67*0 I	9	196019	12	1668-11		670 E	1
1997	90961 G	51160 T	21	11390 D	17	171881	11	*717 I		**9 I	1
1998	17*615*	27500 D	21	17905 I	1*	191179	18	*717 I		*9 I	1
1999	1715*7 G	10821* E	*1	16206 E	11	1* 1090	11	11*778		216 9	0.1
2000	1560 G E	2*8561 T	62	17750 S	1*	177885	20	6561 T		921 G	1
2001*	560,781 I	191126 9	70	106*1 E	9	29*160	11	712891		5780 S	1
				**912 9	E			2806**		7060 9	1

Year	(P Value)	(P Value)	TD	(P Value)	TD	(P Value)	TD
1980	2475	1423		443	18	602	
1981	3596	1326	52	917	26	753	24
1982	3204	2526	52	1012	27	206	21
1983	2514	1329	62	1142	23	523	5
1984	3416	2222	52	946	22	122	15
1985	3995	2613	67	1296	22	626	5
1986	3997	2318	65	1120	22	159	3
1987	5022	2639	64	1244	22	179	4
1988	8110	3619	72	1526	24	935	4
1989	2222	6305	69	1302	19	421	12
1990	14,123	12322	76	1321	18	214	6
1991	12,997	16023	29	1206	10	422	1
1992	N.A.	N.A.	22	N.A.	10	422	2
1993	19,274 S	12,2858		1035 G		253 I	1
1994	19,223 I	17,590 E	94	1205 9	5	466 4	3
1995	24,412 7	21,676 S	91	2110 E	6	625 4	3
1996	229421	21,223 9	29	2027 I	2	691 I	3
1997	2220 52	29,222 S	29	2734 0	2	703 S	3
1998	4495 27	29,406 S	90	4442 G	2	10972	2
1999	6020 06	55,697 0	22	4222 E	10	419 E	2
2000	1421 66 S	13,2726 9	92	2519 9	7	19197	1
2001*	166,064 I	15,4969 3	94	9214 3	5	12805	1
			93		6		1