## CHAPTER THREE

# MAJOR THEORETICAL ISSUES ON NIGERIAN FEDERAL FINANCE



## I. INTRODUCTION

In the life of every federation, fiscal crisis between the federal and the states as well as amongst the states has come to be accepted as an integral part of the federal operation. Nigeria is no exception to this rule. From the birth of the federation till date, the union remains largely transitional with an unending battle for distribution of revenue and expenditure powers between the vertical governments, with the controversy on inter-state allocation of revenue assuming a higher tempo. In effect, therefore, in just less than five decades, the new federation has a dubious record of producing seven Constitutions and large number of decrees.

Notwithstanding, the governments both at the vertical and horizontal arrangements feel grossly implacated even before the ink of the very draft of constitution or decree dries. This is so because on the one hand the centre feels that the states are not making serious efforts to generate their own revenue, and that it is more or less being forced to pay for their inefficiency in the form of huge statutory transfers. On the other hand, the states keep accusing the centre of persistent encroachment on their revenue bases without a corresponding encroachment on the expenditure areas. Or some federating units accuse the centre of adopting principles for horizontal devolution that are aimed at depriving them (the states) the access into the National revenue. The result, -- an ad infinitum constitutional conferences and constitutions of short existence plus ambigous and illfated decrees - all following themselves in a rapid and quick succession. That is, each attempt to resolve the crisis produced a solution that lasted for a very short period. Hence, the arrangement remains confused as the same does not give the people confidence. This was especially so during the military era (1967-79) as the federal military government used its dictatorial powers to centralize the revenue powers and inducting ambigous formula for horizontal allocation. Hence, the federation became typified of a more confused arrangement that has transformed the union into a unitary federalism, a continuous multiplication of the states which are largely mushroom and unviable.

The real impact is that Nigeria remains a typical federation - where anything can happen anytime, where the fiscal crisis is highly volatile and the danger of separatism, regional rivalry and lack of nationalistic thinking threaten the destiny of the federation. It could be, therefore, said in an unmincing words that the problem of centre-state and inter-states finances in Nigeria is quite peculiar and far from the experiences of other federations. In view of all this, this chapter attempts at examining the various contentious issues linked to the division of revenue between the vertical and horizontal governments over the years. This would include, the revenue jurisdictions of the centre and the states, evolution of principles of inter-state allocation and the institutional mechanics of revenue allocation.

## II. REVENUE JURISDICTIONS OF THE FEDERAL AND THE STATES

Federalism requires that the allocation of revenue jurisdictions between the federal and states should follow a pattern that confers on the centre powers over such revenue heads that are not subjected to spatial limitation. This, by implication entails, that, the states should be given exclusive power over those resource bases whose burden fall on residents of a particular locality - state or region, and those resource heads whose burden can only be shifted at a highly reduced degree on both directions such that no particular federating unit is positioned to lose much more than it stands to gain.

The above expression specifically connotes that the legal basis, that is, the legislative powers over such revenues should not be subject to bargaining between the federal and the states as they are immune from such exercise by their very nature. The administration of such revenues closely follow the above contention whereas the "right" of a particular tier of government over the entire accrual of such revenue head or part thereof could be determined through bargaining process.

Nigeria like other federal polities has been following this rule. Thus as it could be seen from Appendix table III.01, Customs and Excise (Import, Export and Excise duties), mining rents and royalties, petroleum profit tax, corporate income tax, individual income tax and gift taxes are under the legal jurisdiction of the centre. The rest of the taxes, that is, sales or purchase taxes, football pools and other betting taxes, motor vehicle tax and drivers licence fees, entertainment tax, land registration and survey fees, property tax etc., fall under the states legislative powers.

It is interesting to note that whereas of all the resource bases under the federal legislative list, the power of administration over the same is also conferred on the centre except in regards to individual income tax, capital gain tax, stamp duties, estate duties and gift taxes, it has no full right over these revenue accrual except for those of income tax of residents of the Federal Capital Territory (Abuja), those of the employees of external affairs ministry and its departments, and also of the personnels of the armed forces. Other areas of exclusive revenue right of the centre include licence fees on TV and Wireless Radio, Petroleum Profit Tax (upto 1980), and corporate income tax (upto 1980).

In the case of resource bases under the legal jurisdiction of the states and local authorities, however, the power of administration and also right over such collected revenues lies with these lower-level governments.

This way it could be inferred that the issue of concurrent revenue right of the federal and the states operates within the confines of the federally administered revenues alone. These resource heads as Appendix table III.01 reveals, are indeed the resource bases that matter - having peculiar characteristics of not only being more productive and highly elastic. As such if they had not been made obligatorily sharable, the states would not have been, in any way, able to discharge their constitutional responsibilities.

An important observation from the table under reference is that income tax (except for Armed forces, external affairs and residents of Federal Capital Territory) is administered and retained by the state governments. This is not at all compatible with federal principle as income tax is generally regarded as possessing a relatively high inter - jurisdictional effect, and hence, is generally administered by the Central Government and shared with the states.

The logic for this kind of practice in Nigeria is possibly based on the fact that, should this resource head be administered by the federal, then the states would obviously have little or nothing as independent revenue since individual income tax is the dominant resource base of the states. It would also be pertinent to point out that this practice was very much in vogue in the older federations of Australia, Switzerland and Canada prior to the second world war.[1] It still prevails in the case of USA[2] whereas the Indian constitution which was largely drawn from the expriences of Canada and Australia Completely abhored this arrangement[3].

## III. EVOLUTION OF FEDERAL-STATES DIVISION OF REVENUE

Indeed, there has been a great deal of change in the vertical financial relations in Nigeria over the years. Thus within the normal framework of the three revenue categories (in respect to right of a particular government over the same) - revenues exclusively allocated to the federal, revenues exclusively devolved to the states, and revenues concurrent to both governments, an inter-category movement has been quite conspicuous over the years. At times obvious enough to be regarded as a recategorization.

This movement has been free-directional for some revenue heads such that those particular resource heads are shifted from one category to another at the convinience of the statute or decree. Notwithstanding, the overall picture captures a true federal vertical allocation principle - taking into consideration the doctrine of "Spatial limitation"[4].

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1. Wheare, K. C., Federal Government, Oxford University Press, London, 1953.
2. See ACIR, The Significant Features of Fiscal Federalism, Washington, 1989.
3. See the Republic Constitution of the Union of India.
4. This implies that revenues of inter-jurisdictional effect should be administered by the centre while those that are spatially limited should remain with the states and local authorities.

The periods of major changes fall into six as shown in Appendix table III.02, viz 1949-59, 1960-69, 1970-71, 1972-75, 1976-80 and 1981-88. In this table whereas "A" and "B types of revenue bases are the revenues for which the federal and the states have exclusive rights respectively, the "C" type of revenue bases are concurrent to both the centre and the states. As the table indicates, between 1949 and 1959, the federal government had 100.00% share of revenue accrual from petroleum profit tax, corporate income tax, (Armed forces personnel, external affairs and residents of federal capital Territory) and licence fees in T.V and wireless radios.

The states on the other hand pocketed the entire revenue collection in regards to mining rents and royalties, Individual income tax (general), Capital gain taxes, Estate duties, Stamp duties, gift taxes, property taxes, sales/purchase taxes, ecetra.

The concurrent revenue was made up of customs and excise alone. The revenue yield from this resource head was divided between the federal and the states equally itemwise, that is, 50% for the centre and the states respectively on each category of import or exports. This invariably works out to nothing but an equal share of the entire customs and excise revenue pool.

An interesting change is noted during the succeeding period, 1960-69. During this phase of the Nigerian federal fiscal evolution, the import duties on beer (including excise duties on the same), wine and other portable spirits and excise duties on tobacoo were transferred to the centre with an exclusive right over the revenues therefrom. Although no specific reason was given for this recategorization, it is generally seen as the first move of the centre towards centralization of revenue bases. Similarly, the regions got exclusive rights over the revenue accrual from export and import duties.

Consequent upon this, the original concurrent revenue pool was left with only receipts from "unspecified" import duties divided between the federal and the states in the ratio of 70 : 30 respectively against 50 : 50 in the earlier period. This pool, however was enhanced by the transfer of mining rents and royalties from the states' exclusive list out of which 20% was appropriated to the federal authority and the remaining 80% went to the states.

During the 1970-71 period, excise duties on beer and tobacco were removed from the exclusive right of the federal back into the concurrent right category - where it had be taken from. In a similar move, the import duties on petroleum products were shifted to the concurrent list. Both the excise duties and import duties on petroleum products were made divisible between the two tiers of authority at the ratio of 50:50 - that prevailed in the earlier arrangement in regards to the import duties.

It is also observed that of the two resource heads that constituted the concurrent pool i.e. import duties (unspecified), and mining rents & royalties in the immediate preceding period, whereas the ratio for the division of the former between the two governments remained the same in the period 1970 - 71, as it was in the preceding one, that is, 70% for the Federal and 30% for the States, however, it was altered for the latter. Thus, as against 20:80 ratio for the centre and the states respectively in the division of mining rents and royalties between 1960 and 1969, the apex government got a mere 5% of the same in this era while the remaining 95% went to the states.

For the period, 1972 - 75, the composition of the three lists remained unchanged except for the shift in mining rents and royalties. This revenue head was removed from the concurrent list and was divided into two sub-heads, viz., off-shore and in-shore mining rents and royalties. While the federal government was assigned exclusive right over the former, the entire accrual from the latter went to the states.

The ratio for the division of import duties (unspecified) underwent a marginal alteration in this era - from 70:30 for the centre and the states respectively in the preceding period to 65% for the former and 35% for the latter. There was no change in the relative shares of the governments in excise duties as well as in import duties on petroleum products.

During the period 1976-80, the offshore mining rents and royalties were transferred to the exclusive right of the states from the Federal exclusive right, along with Import Duties on Petroleum Products (from the concurrent revenue). Hence, the concurrent revenue during this period was made up of Import Duties Unspecified and Excise Duties. There was no change in the respective shares of the centre and the states in their division.

A radical change in vertical revenue devolution system in Nigeria occured during 1980's. The insurmountable change having been caused by section 149[5] (Paragraphs one to four) of the 1979 constitution. Thus the concurrent revenue pool was reconstituted to include such resourceful revenue heads like petroleum profit tax, corporate income tax, mining rents and royalties and all customs and excise duties. Consequent upon this, the list exclusive to federal suffered great deprivation of its prominent revenue heads. In the case of the states exclusive list, this new arrangement had no impact at all. That is, no tax base under the exclusive list of the states was transfered to the newly created Federation Account, except capital gain tax and stamp duties.

This way from 1981 financial year when the fiscal provisions of the constitution were adopted, the concurrent revenue account became the pool of overwhelming importance in the Nigerian revenue allocation system. It comprises of the erstwhile "Distributable Pool Account"[6], federal share of what was the concurrent revenue and such other revenue heads that were hitherto under the exclusive right of the centre but have been made divisible by section 149 of the 1979 constitution, e.g., petroleum profit tax and corporate income tax. The constitution christened this pool "The Federation Account". Its total accrual is divided between the federal and the states on 55:45 ratio[7].

5. The section stipulates that (1) "The Federation shall maintain a special account to be called "The Federation Account" into which shall be paid all revenues collected by the Government of the Federation, except the proceeds from personal income tax of the personnel of the armed forces of the Federation, the Nigeria Police Force, the ministry or department of government charged with responsibility for External Affairs and the residents of the Federal Capital Territory". (2) Any amount standing to the credit of Federation Account shall be distributed among the Federal and State governments, and the local government councils in each state, on such terms and in such manner as may be prescribed by the National Assembly". (3) "Any amount standing to the credit of the states in the Federation Account shall be distributed among the states on such term and in such manner as may be prescribed by the National Assembly" (4) "The amount standing to the credit of local government councils in the Federation Account shall also be allocated to the states for the benefit of their local government councils on such terms and in such manner as may be prescribed by the National Assembly".

6. This pool was constituted by all revenues due to the states but collected by the federal and divisible amongst the states by criteria other than derivation. It was created in 1960.

7. See Appendix Table III.02. Also see Okigbo's report on revenue allocation, Vol.1, pp. 101, 1980.

This new system of vertical revenue sharing which aims at ensuring that the resource available to any tier of decision-making bears a strong relation to the responsibilities imposed on these governments by the constitution implicitely implies attempts by the centre to permit the states to participate adequately in the revenue yield of the "liquid gold", (petroleum), and also of a fair share of the same amongst the states. Earlier, whereas petroleum profit tax, which, consequent upon the oil boom of the 1970's, emerged to be the most resourceful base, remained exclusively with the centre, the off-shore mining rents and royalties were distributed amongst the states strictly on derivation criterion. As a result, the oil revenues were statutorily held by the centre and the few oil producing states.

Again, it would be pertinent to note that the new arrangement of allocation between the federal and the states is no longer based on the proportion of an individual tax base but as a proportion of a collective revenue yield of all the resource bases of the Federation Account.

## IV. INTER-STATES REVENUE ALLOCATION SYSTEM

### IV.1 THE IDEOLOGY:

Ideology (or the absence of the same) determines the objectivity of an adent endeavour (or the converse). This is true in conventional undertakings as in administrative and academic obligations. When the ideas are not well synthesised and channelled towards a definite goal, there is no doubt that the supposed objectives are bound to become vague as the approach to achieving them is not clearly designed. This issue of ideology assumes great significance in the field of social sciences like economics, (and particularly in the field of Public Finance) as it influences the overall government policy in regards to allocation between various sectors and regions of an economy. And hence, it determines the direction of inter-personal and inter-regional distribution of resources. Here, the issues of equity and efficiency come into focus. These two issues form an integral part of the operation of public finance.

Public finance should generally assume a concerted effort to achieving equity and efficiency whether it is in a unitary setup or a federal state.

The story of Nigeria's federal finance, however, started with no laid down "idea" to direct the financial interaction of the centre and the states. This invariably implied that such ideas are left as "extractable reasoning" of scholars and administrators who are involved in the revenue allocation exercise. Therefore, to say that the Nigerian Revenue Allocation System began an imprudent blindwalk is not like making an overstatement. In this connection, therefore, it is felt necessary to examine the concepts of equity and efficiency and how they have been interpreted in the Nigerian fiscal federalism.

### IV.1.1. EQUITY AND THE EVOLUTION OF EQUITY PRINCIPLES IN NIGERIAN FEDERAL FINANCE

Horizontal equity implies equal treatment of equals while the vertical equity requires unequal treatment of unequals. This thereby means that individuals that are economically similarly situated in a nation should be treated equally irrespective of which part of the nation they reside[8]. Thus, according to Buchanan fiscal adjustment should seek to equalize the fiscal residum of these individuals who are similarly situated[9]. The fiscal residum of an individual is defined as the net difference between aggregate benefits received from and aggregate taxes paid to all tiers of government.

In a unitary government the central government through its budget operation can redistribute income amongst its population. The level of distribution that is desired could be achieved through changes in the tax or expenditure sides of the budget.

In a federation, however, redistributive exercise is complicated. This has been so consequent upon the existence of different independent tiers of authority in the same nation. Thus, a parallel operation of fiscal policies of the Centre on the one hand, and of the states on the other hand distort the distribution and redistribution exercises, and hence, the equity rule is violated. Therefore, in fiscal federalism, horizontal equity is construed in the sense

8. Buchanan, J.M. "Federalism and Fiscal Equity", American Economic Review, September, 1950. pp. 583-99.
9. Buchanan, J.M., ibid. pp. 588.

of provision of a standard minimum of public services in all the constitutent units of the federation.The need for this uniform minimum level of social services arises from the fact that the maintenance of strict horizontal equity (in the sense of inter-personal economic welfare) may not be necessary in a federation.[10] This would be the case because of the natural differences amongst individuals in endowment and capacity in enhancing their economic welfare. According to Chelliah et al. "It is not a part of the goal of a federation. While the pattern of distribution will be determined by central policies, variations between the states should be an expected characteristics of a federal structure".[11] This should be the case because of the persistant vertical and horizontal fiscal imbalances. In order to achieve the minimum standard of public services -- horizontal equalization -- fiscal adjustment in the form of discriminate transfers has been priscribed. This clearly implies that the principle of revenue devolution in a federal set-up should be designed in such away as to help the poorer units of the federation to raise the standard of socio-economic services to the level comparable to the rest units in the federation. This, indeed has been the goal pursued by the various fiscal commissions in Nigeria, although, often times with principles that contradict the declared objective.

Interestingly, thus, the introduction of a new constitution for the federation of Nigeria in 1951 (hereinafter referred to as the Macpherson Constitution) - drafted and adopted under the order of Sir Macpherson, the then Governor-General of Nigeria, led to the appointment of Professor J. R. Hicks and Sir Sydney Philipson, "to develop a scheme that over a trend of five years would achieve a progressively more equitable division of revenue". But then, the one-factor formula of "derivation" which was in use, and which this commission endorsed was clearly in contradiction with the spirit of equity.

Again, the Hicks-Philipson Commission built an unpracticable four-factor formula of derivation, Need, Independent Revenue, and National Interest with the hope to achieve

10. Chelliah, R.J. et al Trends and Issues in Indian Federal Finance, NIPFP, Allied Publishers Private Ltd, New Delhi, 1981. pp. 8-9.

11. Chelliah, R.J. et al ibid. pp. 9.

"liberty, justice, fraternity and efficiency" for the states. The difficult thing here is how to reconcile adequately the emphasis of the Governor General's term of reference on "equity" with the Commission's goal of "liberty, justice, fraternity and efficiency in real economic thinking, in order to fulfill the same objective via Commission's principles of derivation, independent revenue, need and national interest, although the last three were completely discarded on implementation according to the Commission, due to lack of data.

Now, the main question is, if the target of the horizontal revenue allocation was "equity" as envisaged in the terms of reference to the Hicks-Philipson Commission, how could this be achieved in a system that adopted "derivation" blatantly in devolving revenue amongst the states. And, again, why did the succeeding Commission - the Chick's Commission, have to work with a term of reference that obliged it to pay cognise "... to the importance of ensuring that the total revenues available to Nigeria are allocated in such a way that the principle of derivation is followed to the fullest degree compatible with meeting of the reasonable needs of the Centre and each of the Regions"[12].

Indeed, the various Commissions occupied themselves with attempts at interpreting "equity, or rather "disequity" and invariably ended up in pulling magic equity principles from their own bags. Thus it is seen that the "derivation" principle which clearly stood for allocating revenues on the basis of their origin, and the "equality-of-states" criterion -- of transfering equal absolute amount to the states came to be regarded as equity principles. The former because it "....asserts, on equity grounds, that the state from which the bulk of the revenue is obtained should receive an extra share beyond what every other state receive"[13], and the latter probably because it ensures equality of access to National revenue to all the states. The other so-called equity principles evolved are : population, balanced development, continuity of government services, minimum responsibility of government, national interest,unified national policy,and equality of access to development opportunities

12. Federal Government of Nigeria, Report of the Chick's Commission. p. 10.

13. Federal Government of Nigeria, Report of the Presidential Commission on Revenue Allocation,, Lagos, 1980, Vol 1, pp. 26.

opportunities. The Commissions, however, failed to show how these principles could achieve equity.

A clear indication of the above is that each Commission worked very hard to see the meaning of "equity" in the mirror of its own eyes. Ironically, however, the varieties of the terminology do not mark a departure as such from the actual connotation of each other. Their differences are purely on the words used as most of the latter principles turned out to be old wines in new bottles. Thus, it is indeed difficult to understand the real meaning of "equity" in the Nigerian revenue devolution system. This is so, because, the principles in use - "derivation" and "equity-of-states" do not discriminate as such between the rich and poor units. They may not achieve equity but may probably perpetuate inequality. For instance the devolution on the basis of derivation simply transfers more resources to the richer regions or states, and lesser amounts to the poorer ones because higher proportions of the divisible revenue was generated from the richer regions.

But, again, it would be an uphill task in proving a better judge of the raisen detre of the equity approaches that once relied on "derivation" as its one-factor formula only to diffuse the same and switch over (with a reasonably high weightage) to "equality-of-states" in the present arrangement. If indeed equity can be interpreted in these senses of either the "origin of revenue" or by equal treatment of the poor and the rich states, then the system would best achieve equity by perpetuating inequality.

While equity in revenue devolution does not mean taking away a greater proportion of the resources of the richer federating unit and giving the same to the poorer ones, it does neither imply that the poorer federating units should not have adequate access to the national resources. Nor does it imply that the poor should live at the mercy of the rich. A sound equity-based approach of revenue allocation while making sure that the poorer federating units are not neglected ensures, that, the sacrifices made by the richer states are not more than they can bear. This, in other words would imply that the people living in either the backward or the advanced states of the federation should feel that they are one people united in the same federation. And, thus, with time the policies of the Central government would mitigate the gap between them.[14]

## IV.1.2 EFFICIENCY AS A PRINCIPLE OF INTER-GOVERNMENTAL RESOURCE DEVOLUTION

The concept of efficiency in economic theory generally implies the minimization of costs for given output or maximization of benefits for given cost. Efficiency as a defined objective in the study of fiscal federalism has three interpretations -- efficiency in the provision of public goods, efficiency in resource generation, and efficiency in resource utilization.

### IV.1.2.1 EFFICIENCY IN PUBLIC PROVISION

Public goods are broadly defined as services rendered by public authorities which are characterised by application of principle non-exclusion and externalities. These goods are jointly consumed by people and their benefits or costs may not be limited within the boundaries of the public authority providing them. Public goods may cover city, state or country defined as the "benefit area" depending on the spatial limits of the benefits accruing therefrom. Thus, it is generally more efficient for the local authorities to provide services like rural electrification, pipe borne water, etc. This would be so because the preferences of the citizens become more homogenous at the local levels. And moreover, the same could be easily sorted out by the requisite authority, and hence a good mixture of the services could be provided. Conversely, public services like National defence, National Highways etc. cannot be efficiently handled at the local or even state levels. This would be the case as these services would generate high degree of externalities in the form of spillovers of benefits and costs. Hence, from the point of view of the nation as a whole, there would be over-preduction or under-production of these services which would thereby render the system inefficient.[15] Thus they are provided by the centre. Nevertheless, some of the public

14. See Chelliah, R.J. et al., ibid. pp. 9

15. See Chelliah et al., ibid. pp.3

goods provided at the local or state level still generate spillovers although at small degree. This may create distorations in the system and thus attempts to correct the same is generally made by the centre in the form of matching grants.[16]

From the above, it can be said that efficiency in the provision of public goods is basically an objective for vertical (rather than horizontal) revenue devolution. As far as the inter-state devolution is concerned, its role is limited to the extent that the government that supplies the public goods also bears a sizeable cost of providing the same.

### IV.1.2.2 EFFICIENCY IN RESOURCE GENERATION

Efficiency in resource generation reflects the ability of any governmental unit in raising maximum possible revenues from its resource bases at a given cost, or a given revenue at minimum cost. Thus assuming that there is no inflution and so revenue and cost are in real terms, if at the period (T1), state "A" is able to generate, say, N20 million from resource bases x,y,z at the cost of N2.5 million whereas it is able to generate the same amount of revenue at the period, T2, from the same resource base but at the cost of, say, N3 million, then, state A is said to be more efficient in resource generation in T1 than in T2 as its cost of collecting the same amount of revenue was lower in T1. Suppose, however, another state, "B" is able to generate a higher revenue, of say i.e., N30 million from the same resource bases, x,y,z at the same period, T1, and at the same cost of say, N2.5 million, then, state "B" would be said to be more efficient in revenue generation than state "A" in the period T1. This would be so because state B collected a higher amount of revenue at the same cost.

Nevertheless, the revenue-generation ability of a state may not always reflect its efficiency in the same. This would be the case because there is always a strong link between revenue collection and the bouyancy of the revenue bases. Thus, the fact that state B collects more revenue at the same cost, than state A may not imply that state B was more efficient than state A. The explanation could be consequent upon the fact that the resource bases, x,y,z have the capacity to yield more revenue (i.e. more bouyant) in state B than in

16. Chelliah et al., ibid. pp.4

state A. Thus, efficient level of the states is generally better captured when the revenues generated by the respective states are linked to their Gross Domestic Products respectively.

As a principle of revenue devolution in a federal set-up, efficiency in resource generation has been defined differently. Some of these definitions are in terms of independent revenue or internal revenue effort and tax effort. The independent revenue (which was applied in Nigeria during the 1950's) is defined as the gross independent revenue raised by a particular government. It did not take into consideration the cost of raising such revenues by the requisite authorities. The internal revenue effort (being used in Nigeria since 1981) is defined as the ratio of the gross independent revenue of a particular state to its total expenditure. The tax effort is defined as the ratio of the own tax revenue of a government to its Gross Domestic Product.[17]

Thus, to determine the eligibility amount to be transfered to a particular state under the criterion of efficiency in resource generation, an inter-state comparison is made on the basis of the interpretation of the term, i.e., efficiency in resource generation (as highlighted above) adopted. Hence, the states that prove to be more efficient get higher federal transfers, and vice versa.

### IV.1.2.3 EFFICIENCY IN RESOURCE UTILIZATION

Efficiency in resource utilization as a principle of federal transfers implies that the inter-state devolution of revenues should be based on the ability of the respective states to utilize the funds effectively. Thus, if a N1 federal transfer is more efficiently utilized in state "A" than state "B", then the former should be entitled to higher revenue than the latter under this criterion. This would be the case because the gain to the Federation as a whole will be greater if the higher amount is transferred to stat A (the more efficient state) than state B (the less efficient state).

17. See Chelliah ibid, pp. 48-50

The concept of efficiency in resource utilization as a principle of revenue devolution has not been adopted in any federation. However, the same was recommended in Nigeria by the Abayode Technical Committee on Revenue Allocation of 1977. The principle which was entitled "Absorptive Capacity" was not used as the Committee's report was rejected by the Federal Government.

Generally, efficiency as an "objective" in revenue allocation between the states of a federation is being pursued in all federal polities through its interpretation in terms of "resource generation and utilization". As far as Nigeria is concerned, no criterion of efficiency has ever found a way into any accepted formula of revenue devolution, save the Okigbo's formula which includes tax effort, although with a small weightage of 5%.

In 1969, however, the Dina Commission built a multi-factor formula with tax effort as one of the principles. It was the first time an efficiency-based factor crept into the Nigerian Revenue Allocation System. Unfortunately the Commission's report was not implemented.

Next in giving consideration to an efficiency criterion was the Abayode Technical Committee on Revenue Allocation of 1977. Its model gave an aggregate of 53% weightage to efficiency principles - Absorptive capacity, 20%, Independent Revenue and Tax Effort, 18%, and Fiscal Efficiency, 15%. But like the Dina Commission's report, it was rejected by the Government.

From the above, the fact is very clear that on the sides of equity and efficiency, something is clearly wrong with the principles used in horizontal revenue devolution in Nigeria. The exercise, as it is very obvious is nothing but a blindwalk. It is highly unsystematised with vaguely defined issues, approaches and paths to tackle and trod on. It has little or no historical coordination. The system seem to have been following ideas that are enriched with political interests and convenience of administration - giving a proper economic rationality a backchair. It is an improvident exercise of highly impressionable design which has already fuelled the tempo of the controversy that surrounds the assignment.

## IV.2 THE PRINCIPLES OF REVENUE ALLOCATION IN NIGERIA

Between 1946 and 1980, the Nigerian federation had eight ad hoc Fiscal Review Commissions. Their primary task was to build an appropriate revenue allocation model that would be complacent to vertical and horizontal fiscal relations. Within this time-frame, at least fifteen principles were evolved for the inter-state devolution.

These principles, most of which were arbitrarily defined, amidst weightage problems, have over the years added filip to the tempo of the controvery they were supposed to mellow. It therefore suffices the need to examine them one after the other in the present exercise.

### IV.2.1 DERIVATION

This principle of revenue devolution implies that the share of a particular state in federal transfers should be determined by the quantum of such revenue that originates from such a state. This means a strict adhering to the "origin" rule of revenues. That is, that the "whole" or "part" of the revenue which the federal collects from a particular state on specified resource base(s) should be transferred back to that state strictly on the basis of "how much" of such revenue have been derived from that state(s).

Thus, for instance, if the revenues from a resource base, x, is divisible between the centre and the states, say at a ratio of 30:70. The application of derivation principle would entail that the 70% of the total resource accrual from the resource base be devolved amongst the states of the federation according to the ratio of "how much" of the entire revenue from the resource base originates from the respective regions. And if the entire revenue from the resource base, x, is divisible amongst the states on the derivation criterion, then the devolution implies that the aggregate revenue and not part thereof from the resource base x, be devolved amongst the states as stated above. Say for instance, if the total revenue accrual from resource base x in a particular year is N100 million -- derived from three states A,B,C at the level of N50 million, N30 million and N20 million respectively, then the application of this, derivative principle here implies that the share of the three respective states in the total amount divisible amongst the states should be 50% for A, 30% for B and 20% for C. But suppose the Centre has the right to retain 30% of the revenue and the remaining 70% is divisible amongst the states, then the amount transferable to state "A" will be :

$$\frac{70}{1} \times \frac{50}{100} = \text{N35 million.}$$

Similarly the amount transferable to the state of B $= \frac{70}{1} \times \frac{30}{100} =$ N21 million.

And the amount transferable to the state of C $= \frac{70}{1} \times \frac{20}{100} =$ N14 million.

Now, suppose the entire revenue accrual of N100 is divisible amongst the states, in this case, the amount transferable to A, B, and C will be N50, N30 million and N20 million respectively.

This principle as it has been applied in Nigeria implies that the "non-declared" revenue - those revenues that are due to the states but are collected by the centre should be transferred to the states strictly on the basis of their origin. In 1946 the Philipson Commission adopted it as the only principle of revenue[18] allocation. And its role was endorsed by the successive Commissions untill 1960 when the Raiseman-Tress Commission, created the Distributable Pool Account (hereinafter referred to as the DPA). The revenue accrual of this account was shared amongst the states by principles other than derivation.

Consequent upon the creation of the DPA the relative importance of the derivation criterion diminished although the pool of revenue devolved according to this principle (referred to as the Non-Distributable Pool Account[19] - Non- DPA with effect from 1960) showed no signs of decline in absolute terms. Other big blow to the derivation principle

18. Excludes federal grants which between 1953 and 1955 were made on the basis of Need and National Interest.

19. This pool in all practical usage has become synonymous with Derivation.

came from decrees 13 and 6 of 1970 and 1975 respectively. The former allocated 60%, 50% and 45% of export duties, import duties on petroleum products and mining rents and royalties respectively on the basis of derivation. The balance of what was due to the states was paid into the DPA. The latter decree, however, awarded no centrally collected revenue to the states on the criterion of this principle except 20% of the mining rents and royalties. This was, however, transferred into the Federation Account by the 1979 constitution.

That the influence of the Derivation has been badly wounded is evident from table 5.02. From this table it could be seen that whereas the entire statutory transfers were effected through Derivation upto 1959, by 1960 - the subsequent fiscal year - it guided 75% of these transfers. By 1967, the Non-DPA constituted only 60.91% of the total statutory transfers. It went down further to 33.60% in 1973, and reached its lowest ebb of 3.46% in 1976. The Okigbo commission assigned 2% to derivation which worked out to 4.71% of the aggregate statutory transfers.

Notwithstanding the diffused role of the non-DPA, one wonders what was exactly sought to be achieved by this Account in its blatant application, although the government kept emphasising on equity. The principle of derivation can never achieve equity by its "unqualified" application. It ".....brings more problems than it solves...."[20]. Even its redefinition as per decree 13 of 1970 - limiting it only to the revenue yield of in-shore mining, has not made matters rosy as the disfavoured states contend that the principle had been relegated to nothingless[21] although it remains highly looped towards disequity.

Thus it could be said without mincing words that the principle of derivation has suffered bad application in Nigeria. It would neither seem proper nor justifiable for any fiscal adjustment exercise that relied "wholly" on one principle at one stage only to relegate the same to a trivial factor all of a sudden especially in federal polity like Nigeria where the issue of revenue allocation has become the centre-stage of the National Politics.

20. Adedeji, A. Nigeria Federal Finance, Hutchinson Educational Ltd, London, 1969. pp. 64.

21. See Memorandum of the Beadel State to the Okigbo Commission as contained in the Commissions report Vol. III.

Indeed, this principle may not be equity-based in the real sense of the term. This would be the case as a blatant application of this principle rolls back revenue to the more developed states from whose regions a greater proportion of the federal revenues originate. Hence the gap between the states widens.

### IV.2.2 EQUALITY-OF-STATES / MINIMUM RESPONSIBILITY

The principle of "minimum responsibility or equility-of-state" is defined as the "principle by which each state should get the same amount irrespective of size or other attributes".[22] In otherwords, this implies that all the states of the federation are entitled to equal absolute share of revenues devolved under this criterion notwithstanding differences in their size, population, level of development etcetra in order to help them discharge their minimum responsibility. The minimum responsibility of government is defined in terms of the minimum level of Administrative and socio-economic services which the governments could provide to their respective citizens. Such administrative and socio- economic services range from the establishment of State Executive Bodies like, civil service commission, administration of state organs, to the establishment of institutions for scientific and technological research, industrial development and the provision of basic education, water, etcetra. This way, the respective state's expenditure on these services forms the basis of estimating the minimum responsibility.

It has been argued that the Federal Constitution imposes all such responsibilities (on equal measure) on all the states. Thus, the smallest state whether in terms of size or population, income or expenditure is held under obligation to discharge such responsibilities just like the biggest state. Thus, no doubt, the level of these services, would vary from state to state but no state(s) should be allowed to provide these services below a particular limit as the same would create resentment and make the citizens of such state(s) feel that they are not member(s) of the some federation. Thus, this principle made its way into the Nigerian Revenue Allocation system in 1960 under the title "minimum responsibility of government" when the Raiseman-Tress Commission adopted the same as one of the four principles it recommended for the allocation of the Distributable Pool Account.

22. Okigbo, ibid. pp.95.

Under the (present) heading, this Equality-of-State principle was introduced by decree no 13 of 1970, which stipulated among other things, that, 50% of the DPA be shared amongst the states on the basis of "equality-of-states". As it has been hinted above, the essence of this principle lies in its belief that the equality of all the states remains undaunted irrespective of their serious differences. Thus, in the eyes of the Federal Constitution, all the administrative units are of the same status as are various countries in the club of nations, and should be subject to cent per cent impartial treatment in resource devolution.

This interpretation which necessarily means "equal treatment of equals", i.e., Constitutional equality -- in reality is nothing but "equal treatment of unequals". In this respect, the Okigbo Commission rightly observed that, "all men are created equal but are endowed, even at birth, with different capacities. Through their lifetime they develop these capacities at different rates even in the face of equal opportunities. Similarly, states are created equal but they arrive, at creation and through time with different endowments of economic, financial and political power. These attributes do not attach to a state permanently : a state that may be financially strong today may turn out to be weak tomorrow, a state that is politically weak today may acquire strong political power from a change in the political environment ...... To divide funds among states in equal parts does not, promote equality especially if the endowments are unequal and existing capacities unequal. On purely equity grounds, therefore, the principle of equality in terms of equal shares to states is a weak principle of allocation"[23].

Paradoxically, however, the Okigbo commission after its clear observation not only retained this principle but awarded it a relatively high weightage of 40%. This was probably on the ground that "the justification for the use of this principle for equal share to states is to be found in the context of the "....minimum responsibilities for each unit in any level of Government"[24].

Still, the truth is that whatever these minimum responsibilities of governments are, they are not unrelated to the commitment of the governments in the discharge of them. This

23. Ibid pp. 28.

24. Ibid, pp. 22.

thereby implies that their real meaning could be derived from the budget of these governments in terms of outlay, definitions of the expenditure heads and their respective appropriations and fiscal efficiency, on the one hand, and on the other, the need of these horizontal governments as would be reflected in population, the level of development of the states, the quality and quantity of existing socio-economic structures, ecetra. And again, this would depend on the exact definition of the so-called minimum responsibilities - whether it operates within the meaning of "administration and administration-related" responsibilities, or encompasses the state basic function in the provision of minimum socio-economic intrastructures. Whichever interpretation one gives to "minimum responsibilities", the point is that they naturally differ from one state to the other and therefore would not form a realistic base for equal treatment of the so-called equals. Since this principle seems so arbitrary, one wonders how the then government arrived at the weightage of 50% attached to it. Or for that matter, how the Okigbo's commission awarded it 40% inspite of the fact that (as observed earlier) it was convinced that it is not a sound principle of revenue allocation.

It may be interesting to note that Nigeria, among all federations of the world, old, new, or emerging, is the only one where any fraction of the divisible revenue is shared amongst the states on the basis of equality-of-states. In view of this one finds it difficult to believe that there is a real economic ideology behind the application of this principle. As it seems, the equality-of-states or the minimum responsibility of governments has itself purely wrapped with politics rather than economics. This could be so because, as pointed out inter alia, transfers according to this criterion is not discriminatory in absolute amount.

### IV.2.3 POPULATION

Population as a principle of revenue devolution implies that the federal transfers to be distributed amongst the states should have a direct and proportionate relationship with the population of the respective states. That is, the proportion of revenue to be transfered to a particular state under this criterion should be the same as the proportion of its population in the aggregate population of the federation. The population could be defined in absolute or relative terms. It has always been adopted in Nigeria in the former sense.

Population as a basis of revenue develution, has been playing a lead role in the Nigerian inter-state revenue allocation - since its early history. Although it was rejected by the Philipson Commission of 1946 because of the unreliability of the Nigerian population figures, the Hicks-Philipson Commission of 1951 used it "as a rough determinant of needs" in its absolute figure. In 1958, the Raisman-Tree Commission adopted it as the sole indicator of "need" in the allocation of the DPA. The decree No 13 of 1970 introduced it directly as one of the two principles applied for the devotion of the DPA, the other being the principle of equality-of-states - each with a weightage of 50%. The problem with the use of this principle in Nigeria is three- fold. One, the weight attached to it is excessively high, two, it has been applied in its crude form - without being weighted, and lastly, the population figures in Nigeria are highly unreliable. This is because often times the states do not cooperate with the National Census Commission during Census exercises. And often times the population statistics is said to have been manipulated.

In respect of the last, it could be pertinent to point out that the population figures used in revenue allocation upto 1991 were projections based on the remote and controversial census of 1963. This matter was worsely compounded with the Population Commission making an erronous assumption that the rates of growth of population are "steady" in all the states for the past three decades. Another wrong assumption was that except for Lagos state, the rate of growth of population was the same in all the states. As a result of this, as would be seen later in chapters seven and eight, population criterion which is supposed to provide an equal per capita resource transfers to all the states, has failed to do so in most years.

The application of this principle in Nigeria like in any other federation has found favour on the ground that all the governmental functions depend directly or indirectly on the size of the population of a governmental jurisdiction. That is the higher the population of a state the higher the pressure on the existing socio-economic infrastructures and hence, the higher the demand for more provision of such services, and vice-versa. Whatever, therefore, the government does, it operates directly on the people and hence fiscal transfers must take into consideration the population of a particular federating unit into consideration as it basically gives a due recognision to the needs of that state. This reflects that population can be used as proxy for need. However, it would not be doing this job properly in its crude form as the most populous state might not necessarily be the most needy one. This could be so because the vulnerability of population or otherwise depends on its composition. And again, the need of a state is not dependent on its population alone. Many other factors such as level of development as would be reflected in the states per capita income and the supply of the basic socio-economic infrastructures, etc. are proxies for need of a state. Nigeria, seems not ready to pay cognise to this fact. Thus it is seen that their 'unique' measure of need, population, continues to enjoy 40% weitage since 1980 when the Okigbo commission awarded same to it.

### IV.2.4. INTERNAL REVENUE EFFORT

This principle implies that a stipulated proportion of the shareable revenue be devolved amongst the states according to their respective independent tax effort such that the state(s) with the highest effort gets the highest share of the said proportion. This principle which is almost always present, in the models of resource devolution of virtually all federal states could not find a way into the Nigerian system till the arrival of the Okigbo commission who assigned 5% weightage to it, although it had been recommended earlier by the Dina Commission of 1968 and the Abayode Technical Committee of 1977. In both cases the Commissions' recommendations were not accepted by the government.

Now, coming to the definition of internal revenue effort, the Aboyade Committee had expressed internal revenue effort as a ratio of the average expenditure of the state governments on personal emoluments over a period, to the average of their total recurrent expenditures over the same period.[25] The committee justified its definition on the ground

25. Federal Government of Nigeria, Aboyade Technical Committee's Report, 1977, Federal Government Press, 1977.

that expenditures on personal emoluments give rise to potential revenue generating capacity to the state governments. On the other hand, the Okigbo's Commission defined this principle as "...the internal revenue of a state as a ratio of its total expenditure".[26]

These definitions of internal revenue effort[27] are not only misleading but highly erronous. For one thing, the internal revenue effort of a governmental unit depends on its taxable capacity and potential. That is, the revenue bases available to an authority through which it can raise additional revenue without imposing unbearable burden on its citizens. This no doubt, depends on the income of the citizens of such a state and its level of development. These are well reflected in the States' Gross Domestic Product. Thus widening the revenue base and increasing the taxable capacity will naturally increase the revenue effort of a governmental unit. This would not be the case if the capacity of the citizens of the state to bear "buden" of revenue generation or make sacrifices are constrained by low income. Therefore, it could be seen that the idea of defining revenue effort in terms of expenditure is highly misleading. It only reveals the extent to which the internal revenues of a state is capable of financing its expenditure and not the effort made to generate the internal revenue.

And again, in a system (as typified by Nigeria) where there is neither a control over the states expenditure, worst, nor any appropriate mechanism of estimating a tolerable limit of the same, there is every tendency that the states will keep their expenditures not only open-ended, but equally, artificially so, in order to attract more revenue under this criterion. This would invariably lead to expenditure mimmicking amongst the states.

One would agree with Okigbo's Commission that the State-wise Gross Domestic Product (GDP), that is, the State Domestic Product (SDP), estimates do not exist in Nigeria today hence its "definition-of-convinience" of internal revenue effort. But it would have been better had there been an attempt to secure those estimates, or, alternatively eliminate the same from the model - since the application of a wrong concept would not only be misleading but would also set a bad precedent.

26. Okigbo's Report 1980. pp. 100.

27. Internal revenue effort here is assumed to be synonymous with tax revenue effort as the latter constitute over 85% of the total independent revenue of most of the states.

### IV.2.5 SCHOOL ENROLMENT RATIO

This principle was inducted into the Nigerian Revenue Allocation System in 1980 by the Okigbo's Commission. The Commission introduced this factor after a long search for other indicators for social development. During this process, the Commission found itself "obliged by paucity of data to eliminate some indicators from the beginning"[28], Eventually, it "settled on the Social Development indicator, education, determined by the enrolment in primary schools. "......... reason, other than the availability of data, is that education at that level is not only a major plank of government priority in each state but is, also, entrenched in the constitution as a fundamental objective of state policy"[29].

Although this principle was awarded 15%, 11.25% of this was based in the direct enrolment ratio. The Direct Enrolment ratio of a state is defined as the ratio of its enrolment in primary school to the total primary school enrolment of the federation the balance of 3.75% was made according to inverse enrolment ratio. The principle of "Inverse School Enrolment Ratio" implies that the revenue to be divided amongst the states according to this criterion should be devolved such that the states that have relatively lower school enrolment ratio receive relatively higher amount. This is designed with a view to helping these states to increase their enrolment.

### IV.2.6 OTHER PRINCIPLES

Apart from the above principles, some other ones that have equally (explicitly or implicitly) guided fiscal transfers in Nigeria at one time or the other include, National interest, Need and Even Development.

Whereas on the basis of "National Interest" 100% of the cost of Regional Police Forces, 50% of the cost of Native Authority Police Forces and 100% of Regional Governments' education grants to voluntary agencies and local authorities, were made by the Philipson Commission, it did not disclose the "weightage" attached to "Need".

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28. Ibid. pp. 98.

29. Ibid. pp. 99.

Similarly, the Raiseman-Tree Commission of 1958 did not disclose the weightage given to the principles it recommended, Need and Balanced development. The Commission simply claimed that it had assigned to these principles "the appropriate weight in the existing circumstances",[30] and ended up in furnishing only "magic" proportions for the allocation of the revenues of the "Distributable Pool Account."

### IV.2.7 ALLOCATION OF GRANTS AND LOANS

#### IV.2.7.1 GRANTS

The devolution of grants[31] to the states followed similar patterns with the allocation of statutory transfers. And as these grants are entirely discretionary, the states have always failed in their bid to influence its distribution. They had suggested alternative criteria or scrapping the entire grant mechanic and integrating same with the mainstream revenue allocation. This latter proposal was accepted during the middle of the second National Development Plan, 1970-75.

The dawn of grant system in Nigeria, 1953 to 1955, saw a devolution based on ambiguous and arbitrary principles. The Police and Education grants were made on the basis of the so- called National Interest. Between 1971 and 1979, however, some grants were shared on the basis of population and equality-of-states, with a weightage of 50% assigned to each - exactly the same formula for the allocation of the statutory transfers during the same era. These grants were made for libraries, primary schools, science and mathematical teaching in colleges, scholarship expenses in Northern States, development of technical education and secretariat buildings in new states, and grants for the development of sixth form in secondary schools.

On the other hand, some other grants like those of agriculture were also made on the basis of population and Equality-Of-State but with weights of 70% and 30% respectively. Enrolment ratio (and its inverse) was inducted into the above formula for grants meant for the expansion of primary education. The weightage was 33.33% respectively for population, Equality-Of-State and Enrolment ratio.

30. Raiseman-Tree Report, Federal Government of Nigeria, 1958.

31. An explanation of the working of the grant system has been done in section II.2 of chapter 5.

Special grants for the war-affected areas were based on the "estimated damage" done to the educational institutions in that area. And then, grants for Town and Country Planning, layout of shopping centres, regrouping of villages and hamlets were disbursed according to the projects' estimates submitted by the states while those for the education of the handicapped children were devolved according to the expenditure pattern in the existing institutions in the state concerned.

At the outset of the second National Development plan, grant allocation followed the same formula that was in use in the previous plan. However, by the middle of the plan, dissatisfaction was expressed by most of the states who in effect pressured the centre either to scrap the entire grant system or integrate same with the mainstream transfer - statutory transfer -- by adopting the same two-factor formula of Population and Equality-of-States, with same weights assigned to them.

### IV.2.7.2 LOANS

The story of loan sharing is not different from that of the grants and statutory transfers. It was also largely done on the basis of the same principles of population and equality-of-states with a weightage of 50% each. Consequently this "induced some states to treat the proceeds of Development Loan Stocks as if they were recurrent revenues, rather than obligations with certain maturity in capital and interest[32].

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32. See, Okigbo Commission Report, ibid, pp. 44-47.

## APPENDIX TABLE III.01

**Federal-States Revenue Jurisdiction in Nigeria as at 1988**

| | Revenue Base | Legal Basis | Administration | Right to Revenue |
|---|---|---|---|---|
| 1. | Import Duties | Federal | Federal | Federal/States |
| 2. | Excise Duties | Federal | Federal | Federal/States |
| 3. | Export Duties* | Federal | Federal | Federal/States |
| 4. | Mining Rents and Royalties** | Federal | Federal | Federal/States |
| 5. | Petroleum Profit Tax*** | Federal | Federal | Federal/States |
| 6. | Corporate Income Tax*** | Federal | Federal | Federal/States |
| 7. | Capital Gain Tax**** | Federal | States | Federal/States |
| 8. | Personal Income Tax | Federal | States | States |
| 9. | Personal Income Tax (Armed Forces, External Affairs Officers & Federal Capital Territory) | Federal | Federal | Federal |
| 10. | Licence fees on TV and Wireless Radio | Federal | Federal | Federal |
| 11. | Stamp Duties**** | Federal | States | Federal/States |
| 12. | Estate Duties | Federal | States | States |
| 13. | Gift Tax | Federal | States | States |
| 14. | Sales and Purchase Tax | States | States | States |
| 15. | Football Pools and other Betting Taxes | States | States | States |
| 16. | Motor Vehicle Tax & Drivers Licence Fees | States | States | States |

Appendix Table III.01 (contd)

| | Revenue Base | Legal Basis | Administration | Right to Revenue |
|---|---|---|---|---|
| 17. | Entertainment Tax | States | States | States |
| 18. | Land Registration and Survey Fees | States | States | States/Local Govt. |
| 19. | Property Tax | States | Local Govts. | Local Govt. |
| 20. | Marketing and Trading Licence and Fees | States/ Local Govt. | Local Govt. | Local Govt. |
| 21. | Motor Park Dues | States/ Local Govt. | Local Govt. | Local Govt. |
| 22. | Land Ground Rent Fees | States | States/ Local Govt. | States/ Local Govt. |
| 23. | Others | States | Local Govt. | Local Govt. |

Source : (1) Report of Okiqbo Commission on Revenue Allocation 1980

(2) Constitution of Federal Republic of Nigeria, 1979

(3) Federal Ministry of Finance.

Note : * Between 1960 and 1980 the states were allocated 100% of all revenue from this source.

** Upto 1959 the States had an exclusive right of this revenue head.

*** Prior to 1980 the right of revenue accrual from these revenue heads were exclusively federal.

**** Prior to 1981, the right of revenue accrual from these revenue heads were exclusively states'.

## APPENDIX TABLE III.02

**System of Federal - States Revenue Allocation in Nigeria 1949 - 1988**

| Period | Type of Revenue Base | Federal Share | States' Share |
|---|---|---|---|
| 1949-59 | A. Petroleum Profit Tax, Corporate Income Tax, Personal Income Tax, (Armed Forces, External Affairs Officers and Federal Capital Territory), Licence Fees on TV and Wireless Radio. | 100.00% | 0.00% |
| | B. Mining Rents and Royalties, Capital Gains Tax, Personal Income Tax, Stamp Duties, Estate Duties, Gift Tax, Sales/Purchase Tax, Football Pools and other Betting Taxes, Motor Vehicles Tax and Drivers Licence Fees, Entertainment Tax, Land Registrations and Survey Fees, Property Tax, Marketing and Trading Licence Fees, Motor Park Dues, Land Ground Rent Fees, Import Duties on Petroleum Products, Others. | 0.00% | 100.00% |
| | C. 1. Import Duties on: | | |
| | i) Tobacco | 50.00% | 50.00% |
| | ii) Beer, Wine and Potable Spirits | 50.00% | 50.00% |
| | iii) Unspecified (Others) | 50.00% | 50.00% |
| | 2. Export Duties | 50.00% | 50.00% |
| | 3. Excise Duties On Tobacco | 50.00% | 50.00% |
| 1960-69 | A. As per "A" in the preceding period plus (a) Import Duties on Beer, Wine, and Potable Spirit (b) Excise Duties On: (i) Tobacco, (ii) Beer. | 100.00% | 0.00% |

Appendix Table III.02 (contd)

| Period | Type of Revenue Base | Federal Share | States' Share |
|---|---|---|---|
| | B. | | |
| 1960-69 | As per "B" in the preceding period without Mining Rents and Royalties, plus : (i) Export Duties (2) Import Duties on Tobacco. | 0.00% | 100.00% |
| | C. | | |
| | i) Import Duties Unspecified | 70.00% | 30.00% |
| | ii) Mining Rents and Royalties | 20.00% | 80.00% |
| | A. | | |
| | As per the preceding period minus Excise Duties on Tobacco and Beer. | 100.00% | 0.00% |
| | B. | | |
| 1970-71 | As per the preceding period minus Import Duties on Petroleum Products. | 0.00% | 100.00% |
| | C. | | |
| | i) a. Import Duties Unspecified | 70.00% | 30.00% |
| | b. Import Duties on Petroleum Products. | 50.00% | 50.00% |
| | ii) Mining Rents and Royalties | 5.00% | 95.00% |
| | iii) Excise Duties | 50.00% | 50.00% |
| | A. | | |
| | As per preceding period plus Mining Rents and Royalties from the Territorial Waters and Continental Shelf (off shore) | 100.00% | 0.00% |
| | B. | | |
| 1972-75 | As per the preceding period plus in-shore Mining Rents and Royalties. | 0.00% | 100.00% |
| | C. | | |
| | 1. Import Duties Unspecified | 65.00% | 35.00% |
| | 2. Excise Duties | 50.00% | 50.00% |
| | 3. Import Duties on Petroleum Products. | 50.00% | 50.00% |

Appendix Table III.02 (contd)

| Period | Type of Revenue Base | Federal Share | States' Share |
|---|---|---|---|
| 1976-80 | A.<br>Same as per the preceding period without Offshore Mining Rents and Royalties. | 100.00% | 0.00% |
| | B.<br>Same as per preceding period plus :<br>(i) Offshore Mining Rents and Royalties<br>(ii)Import Duties on Petroleum Products. | 0.00% | 100.00% |
| | C.<br>Import Duties (Unspecified)<br>Excise Duties | 65.00%<br>50.00% | 35.00%<br>50.00% |
| 1981-88 | A.<br>(1) Personal Income Tax (Armed Forces, External Affairs Officers and Federal Capital Territory)<br>(2) Rent on Government property. | 100.00% | 0.00% |
| | B.<br>As per the preceding period minus all Mining Rents and Royaltied and Import Duties on Petroleum Products, Capital Gain Tax and Stamp Duties. | 0.00% | 100.00% |
| | C.<br>(1) Petroleum Profit Tax,<br>(2) Corporate Income Tax,<br>(3) Mining Rents and Royalties<br>(4) Excise Duties<br>(5) Import Duties<br>(6) Export Duties<br>(7) Capital Gain Tax<br>(8) Stamp Duties | 55.00% | 45.00% |

Source : Same as per Appendix table III.01.

1. States share includes local Governments share.
2. Type of revenue for the period 1981-88 forms the Block Pool called the Federation Account vertically distributed as cited above, i.e., 55% for the Federal and 45% for the States
3. The revenues from "A" are exclusively Federals, "B" are exclusively States while "C" are concurrent to Federal and States (divisible).

## APPENDIX TABLE III.03

**Inter-States* Revenue Allocation System in Nigeria**
**1949-88**

| Period | Revenue Head | System of Allocation** |
|---|---|---|
| | A. | |
| | (i) Income Tax (2) Capital Gain Tax (3) Estate Duties, (4) Gift Tax (5) Sales/Purchase Tax (6) Property Tax (7) Entertainment Tax (8) Stamp Duties (9) Football Pools and other Betting Taxes (10) Motor Vehicle Tax and Drivers Licence Fees (11) Land Registrations and Survey Fees (12) Marketing and Trading Licence Fees (13) Motor Park Dues (14) Land Ground Rent Fees (15) Mining Rents and Royalties. | 100% of collection retained by States for own use. |
| | B. | |
| 1949-59 | (1) Import Duties on: (i) Tobacco (ii) Petroleum Products. | 100% of revenue allocated to the States according to propor-nate Regional consumption. |
| | (2) Import Duties on: (i) Beer, wine and potable spirits (ii) Unspecified | North 30% West 40% East 30% |
| | (3) Export Duties | 100% of revenue shared among the States according to their proportion in production of the respective export commodities. |
| | A. | |
| | As per 'A' above without Mining Rents and Royalties | 100% of collection of revenue retained by states for own use. |
| 1960-65 | B. | |
| | (1) Import Duties on: (i) Tobacco, and (ii) Petroleum Products. | 100% Allocated according to proportionate Regional consumption. |
| | (2) Export Duties | 100% Revenue shared among the States according to their propor-tionate production of the export commodities. |

Appendix Table III.03 (contd)

| Period | Revenue Head | System of Allocation** |
|---|---|---|
| | C. | |
| | i) Import Duties Unspecified | 100% paid into Distributable Pool Account |
| 1960-65 | ii) Mining Rents and Royalties | 62.50% to be paid to the state of origin and 37.50% paid into Distributable Pool Account. |
| | | The Distributable Pool was allocated as follows : East 32.63%, West 25.26%, North 42.11% |
| | A. | |
| | As per "A" of the preceding period | 100% of collection by states retained by States for own use |
| | B. | |
| | (1) Import Duties on Tobacco | 100% of revenue collection allocated to the States according to proportionate consumption. |
| | (2) Export Duties | Same as per the preceding period. |
| | C. | |
| 1966 | i) Import Duties on (a) Petroleum Products (b) Unspecified. | 100% paid into the Distributable Pool Account |
| | ii) Mining Rents and Royalties | 56.25% allocated to state of origin and 43.75% paid into the Distributable Pool Account |
| | | The Distributable Pool to be distributed as follows : East 30%, West 20%, Mid-West 8%, North 42%. |
| | A. | |
| | Same as per preceding period | Same as per preceding period |
| | B. | |
| | (1) Same as per preceding period | Same as per preceding period |
| | (2) Export Duties | Same as per preceding period |

Appendix Table III.03 (contd)

| Period | Revenue Head | System of Allocation** |
|---|---|---|
| 1967-69 | C.<br>The same as per preceding period | As per preceding period save that Distributable pool would be shared as follows : Benue Plateau 7%, East Central 17.5%, Kano 7%, Kwara 7%, Logos 2%, Mid-Western 8%, North Central 7%, North Eastern 7%, North Western 7%, Rivers 5%, South Eastern 7.5%, Western 18%. |
| 1970-75 | A.<br>Same as per preceding period | 100% of collection of revenue retained by state for own use |
| | B.<br>i) Import Duties on Tobacco<br>ii) Import Duties on Petroleum Products | 100% of collection devolved on the basis of proportionate consumption of the States. |
| | C.<br>(1) Export Duties | 60% paid to the State of Origin and the Balance of 40% paid into the Distributable Pool Account. |
| | (2) Excise Duties | 100% paid into the Distributable Pool Account. |
| | (3) Import Duties unspecified | 100% paid into the Distributable Pool. |
| | (4) Mining rents and Royalties | 47.37% paid to the state of origin and the balance of 52.63% paid into the Distributable Pool Account.<br>The Distributable Pool to be Devolved as follows : 50% on the basis of equality-of-states (equal share for all state) and 50% on the basis of population. |

Appendix Table III.03 (contd)

| Period | Revenue Head | System of Allocation** |
|---|---|---|
| 1976-80 | A.<br>Same as per the preceding period | 100% of collection of revenue fully retained by state for own use |
| | C.<br>1. Import Duties on:<br>i) Petroleum Products<br>ii) Tobacco<br>iii) Unspecified | 100% of revenue paid into the Distributable Pool Account. |
| | 2. Excise Duties | |
| | 3. Export Duties | |
| | 4. Off-shore Mining Rents and Royalties | |
| | 5. In-shore Mining Rents and Royalties | 20% paid to the state of origin and 80% paid into the Distributable Pool Account.<br>The Distributable Pool Account to be shared on the following criteria:<br>(1) 50% on the basis of Equality-of-State (equal share for all the state).<br>(2) 50% on the basis of population. |
| 1981 | A.<br>Same as per the preceding period | Same as per the preceding period |
| | C.<br>States share of the Federation Account (45.0%) of the total revenue collected by the Federal Government, (see Note 5 of this chapter) | Derivation 4.8%, States Development Fund 7.23%, Equality-of-State 43.97, Land Area 8.80, Population 35.18****. |

Appendix Table III.03 (contd)

| Period | Revenue Head | System of Allocation** |
|---|---|---|
| | A.<br>Same as in the preceding period | 100% of collection of revenue retained by the states for own use |
| 1982-88 | C.<br>States share of the Federation Account (45.00%) | Revenue Allocated on the basis of the following criteria:**** |
| 1982-88 | | i) Equality of states 36.00%<br>ii) Population 36.00%<br>iii) School Enrolment Ratio 10.12%<br>iv) Inverse of School Enrolment Ratio 3.38%<br>v) Internal Revenue Effort 4.5%<br>vi) Allocation to mineral producing Areas (derivation) 4.44%<br>vii) Federal Ecological Problems in States 2.22%<br>viii) Federal Fund for the development of mineral producing areas 3.34%. |

Source : Compiled From :

(1) Report of Okigbo Presidential Commission on Revenue Allocation, 1980.

(2) Nigeria Federal Finance, A. Adedeji, 1966.

(3) Constitution of the Federal Republic of Nigeria, 1979.

(4) Annual Reports of the Central Bank of Nigeria.

(5) Official Gazettes of the Federal Government of Nigeria.

Notes :

(1) * Includes Local Government Areas.

(2) ** Expressed as Percentage of the total allocation due to the states.

(3) *** For Derivation and States' Development Fund these figures = 2.00% and 3.00% of the Federation Account. For Equality of States, Population and Land Area the sum of these figures is equal to 36.5% of the Federation Account distributed as follows : Equality of state = 50%, Population = 40% and Land Area = 10%.

(4) **** (i) - (v) = 40.5% of the Federation Account devolved amongst the states as follows : Population 40%, Equality-of-States, 40%, School Enrolment Ratio 11.25% Inverse of School Enrolment Ratio 3.75%, Internal Revenue Effort 5%. (vi) = 2% of the Federation Account, (vii) = 1% of the Federation Account (viii) = 1.5% of the Federation Account.

(5) Revenue heads under the "A" category of this table are the resource bases the entire proceeds are retained by the respective states or allocated to these states by the centre. "B" type of revenue are those which are allocated to the states on the basis of Derivation Criterion, while the "C" type of revenue are those allocated to the states partly or wholly through the Distribution Pool Account.

APPENDIX TABLE III.04

**Institutional Approach to Nigerian Revenue Allocation System 1949-88**

| Period | Name of Commission/Statute | Main Impact of Commission /Statute on Nigerian Federal Finance | Principle Followed for Horizontal Allocation |
|---|---|---|---|
| 1949 | Philipson Fiscal Review Commission | (1) The Introduction of the controversial "Derivation" criterion in the Nigerian Federal Polity.<br>(2) Making the States more fiscally viable by granting them right over productive resource bases. | 1.Derivation<br>2.Even Progress |
| 1953 | Hicks-Philipson Fiscal Review Commission | Created the :<br>i)Capital Grants<br>ii)Education and Police Grants<br>iii)Special Equalization Grants | 1. Derivation<br>2.Need<br>3.National Interest |
| 1956 | Chick Fiscal Review Commission | Discontinued the above grant system | 1.Derivation<br>2.Fiscal Autonomy |
| 1960 | Raisman-Tress Fiscal Review Commission | (1) De-emphasising the principle of derivation created the Distributable Pool Account with 30% respectively of Unspecified Import Duties and Mining Rents and Royalties<br>(2) Transfer of whole revenue from Import Duties on Beer, Wine and Potable Spirits to the Federal Government.<br>(3) Made Mining Rent and Royalty shareable revenue amongst the States.<br>(4) Made Export Duties and Import Duties on Tobacco 100% Regional Revenue. | 1.Derivation<br>2.Fiscal Autonomy<br>3.Unified National interest |

Appendix Table III.04 (contd)

| Period | Name of Commission/Statute | Main Impact of Commission /Statute on Nigerian Federal Finance | Principle Followed for Horizontal Allocation |
|---|---|---|---|
| 1966 | Binns Fiscal Review Commission | Further de-emphasising derivation principle by increasing the resource base of the Distributable Pool Account. | 1.Derivation<br>2.Fiscal Autonomy<br>3.Unified National Interest |
| 1968 | Decree No.15 of 1967 | Formulated new Ratios for inter-State allocation following the re-organisation of states. | Not Specified |
| 1969 | Bina Committee on Revenue Allocation* | Attempted to further increase the resource base of the Distributable Pool Account and made the first bold attempt at introducing a more realistic multi-factor formula of resource devolution | 1.Basic need<br>2.Minimum National Standard<br>3.Balanced Development<br>4.Tax Effort<br>5.National Need<br>6.Derivation |
| 1970 | Decree No.13 of 1970 | The size of the Distributable Pool was boosted as the "derivation" criterion suffered another setback. Replaced "ratios" with a two-factor model of equality-of-state and population in horizontal Allocation. | 1.Derivation<br>2.Equality-of-State<br>3.Population |
| 1971 | Decree No.9 of 1971 | Transferred all off-shore Mining Rents and Royalties to the Federal Government. | Same as per the preceding period. |
| 1975/76 | Decree No.6 of 1975 | Established the Distributable Pool Account as the "National Cake" for Horizontal Devolution by its enomous enlargement with 100% of Off-Shore Mining Rents and Royalties, 80% of in-Shore Mining Rents and Royalties, 100%, 35% and 100% respectively of Import Duties on Petroleum Products & Tobacco, Unspecified Import Duties and Export Duties respectively; etc. The decree almost extinted the principle of derivation. | 1.Derivation<br>2.Population<br>3.Equality-of-State |

Appendix Table III.04 (contd)

| Period | Name of Commission/Statute | Main Impact of Commission /Statute on Nigerian Federal Finance | Principle Followed for Horizontal Allocation |
|---|---|---|---|
| 1977 | Aboyade Technical Committee on Revenue Allocation* | Made the first attempt at establishing a Federal-States Joint Account for Vertical and Horizontal Allocation. Also made a serious recommendation for better principles of horizontal allocation. | 1.Equality of access to development opportunities<br>2.National Minimum Standard<br>3.Absorptive Capacity<br>4.Independent Revenue<br>5.Fiscal Efficiency |
| 1979 | The Constitution of the Federal Republic of Nigeria, 1979. | Marked a turning point in the history of the Nigerian Federal Finance. Established a Common Pool - The Federation Account for the Federal-States and Inter-States revenue allocation. As this pool was made up of the more productive resource bases of the Federal Government, the States eventually had an access into the more elastic taxes of the country. | Not Specified |
| 1980 | Okigbo Presidential Commission on Revenue Allocation, 1980 | Tried to deemphasise the "Population and Equality-of-States" criteria, while inducting a multi-factor model. | 1.Derivation<br>2.Equality-of-State<br>3.Population<br>4.School Enrolment Ratio<br>5.Independent Revenue Effort |

Source : Same as per Appendix Table III.03.

* The Committees' Recommendations were not implemented.