

CHAPTER SEVEN

AN ANALYSIS OF THE HORIZONTAL FISCAL DISPARITY AND THE INTER-REGIONAL DEVOLUTION OF RESOURCES.

I. INTRODUCTION

The fiscal interaction between the federating units is crucial in the life of a federation. This is so because, states face disparities in the endowment of natural and human resources, territorial distribution, topography, literacy level, occupational structure, language, religion and culture etc. at the time of their creation. Hence, inequalities in fiscal capacity and performance and glaring differences in the level of socio-economic services provided across the states of the same federation are observed to be common phenomena. In other words, the inter-jurisdictional financial interaction assumes significance within the contemplation of horizontal fiscal imbalances and horizontal fiscal adjustments.

In a federation, horizontal fiscal imbalances generally imply that some units are separated from others in their respective fiscal capacity and performance. Hence, the fiscal viability of some units is greater than that of others, such that they are in the position to provide to their citizens above-average socio-economic services at average tax rates, or average socio-economic services at below-average tax rates. On the other hand, the fiscal capacity of some units is less, such that, they can only provide to their citizens average socio-economic services at above-average tax rates or below-average socio-economic services at the average tax rates. Under such situation, where the "unequal equals"¹ exist side by side, cautious and diligent formulation and implementation of rules for inter-governmental financial relations is called for. Indeed, inter-regional disparity is not a welcomed feature of federalism. It may lead to inefficient allocation of resources in both private and public sectors of the economy.² This may result from the immobility of factors of production across the Regions,³ and because the objective of the Central government

1. This phrase refers to the states which are generally unequal in terms of virtually all socio-economic indicators, but which enjoy constitutional equality as political entities with equal status and power to execute all the responsibilities assigned to them by the Constitution.
2. See Downes T.A and Pogue T.F., "Inter-governmental Aid to Reduce Fiscal Disparities : Problems of definition and Measurement", *Public Finance Quarterly*, Vol.20 No.4, October, 1992. pp. 468-482.
3. See Sinha, R.K. *Regional Imbalances and Fiscal Equalization*, South Asian Publishers Pvt. Ltd., New Delhi, 1984, pp.39.

with respect to even development demands deliberate diversion of capital (resources) to poorer regions of the country, and may be, to such sectors where the return on the invested fund will not be optimal.⁴ This kind of redistributive exercise by the Central government is required as the same could place the various regions of the federation in a more or less equal fiscal position over time. Thus, the various units of the federation would be able to provide a comparable level of public services to their respective residents. Nevertheless, this approach of achieving horizontal fiscal equity must ensure that the benefits accruing to the poorer regions are enough to maintain their interests in the federation. On the other hand the sacrifice made by the richer regions should not assume an overwhelming magnitude as to be considered by them a threat on their interest in the federation.⁵ For instance, if the redistributive exercise involves huge transfers from the richer to the poorer regions, it might be considered as a threat by the richer states since they would perceive such sacrifice as eroding whatever gain they may expect from such a federation. They would rather prefer to remain on their own.

Thus, striking a balance between the various interests of the poorer and richer regions assumes great significance in the life of any federation. If this cannot be achieved, then the existence of such a federation without serious internal conflicts and external pressures would be unthinkable.⁶ It is thus obvious that examination of inter- regional disparities is necessary for providing proper policy guidelines.

A variety of measures of profiling the imbalance of the states inter se have emerged over the years. They mainly comprise of per capita States Domestic Product (SDP), composite index⁷ -- which incorporates various indicators of disparity into a single measure, Fiscal capacity of the states (as reflected in the Independent Revenue Effort), socio-economic indicators such as industrial output, enrolment in educational institutions, availability of medical facilities, etc, and expenditure of the states on the aggregate or on

4. See Adarkar, B.P. The Principles and Problems of Federal Finance, P.S. King and Sons Ltd, London, 1933, p.215.

5. Sinha R.K. *ibid*, p. 10

6. May R.J., Federalism and Fiscal Adjustment. Clarendon Press, London 1969, p.56.

7. For details see Rao, Hemlata, Centre-state Financial Relations, (Criteria of Federal Fiscal Transfers and their Applications in India) Allied Publishers, New Delhi, 1981, Chapter III.

specified socio-economic variables. Although most of these indicators reflect the level of development of the states in a federation - and hence the general need for support (or otherwise) from the Centre -- they do not reflect the actual financial need of these states as might be required by the inter-states' fiscal adjustment programme. Herein lies the relevance of the profile of the states on the basis of their respective independent revenue effort vis-a-vis their respective "committed expenditure".⁸ This would invariably reflect the "committed fiscal need" of the respective states which will be equal to the difference between the independent revenue effort and the "committed expenditure". It would naturally vary from state to state. Once the "committed expenditure" is defined, it is obvious that the ability of a particular state in attaining the same (in the absence of federal transfers) is directly related to the fiscal capacity of that state as reflected by its independent revenue effort. And hence, its "committed fiscal need"⁹ as defined above will be inversely related to its independent revenue effort i.e., larger the independent revenue, smaller the fiscal need, and vice versa.

"Committed fiscal need" of the states is indicative of their fiscal disparities and hence of their fiscal disadvantages as Bahl et al¹⁰ put it. In this work, the fiscal disparity of the Nigerian Regions and states has been explained in the sense of per capita independent revenues and per capita expenditure. This approach has been followed in studies by ACIR (1989), Chelliah R.J. et al (1981), Bahl et al (1992).

It would also be interesting to examine the relative level of development of the Nigerian states according to their per capita SDP. However, this has not been possible for this study as authentic data on SDP are not available for Nigerian federation. Hence, analysis of horizontal imbalances in Nigeria has been confined to the revenue and expenditure

8. Committed expenditure denotes levels of expenditure on public services comparable to those of the other states of the federation. This may be defined in terms of minimum level of such services (National minimum standard) or in terms of National average of such services.

9. This phrase may be taken as the equivalent of what Roy Bahl et al terms the 'difference' between an estimated "cost of providing a standard package of services, and an unambiguous measurement of tax effort" - which reveals the need for Central assistance. See Bahl R. et al, "Central City-Suburban Fiscal Disparities", in Public Finance Quarterly, Vol.20 No.4, October 1992. pp. 421- 432.

10. See Bahl et al *ibid.* pp. 421.

variables. On the issue of the principles of inter-region or inter-state devolution of resources, Nigeria, like India, has always relied on the advice of an expert Commission. However, the Commissions in Nigeria were always confronted by conflicts between Regionalism and Nationalism as well as by the problems of lack of authentic data on certain indicators of development. Hence, all the Regions or States in their respective memoranda to the fiscal Commissions on the method of revenue devolution put up proposals that normally benefit them.¹¹ The rich Regions and States ask for the allocation to be based mainly on the principle of derivation, while populous states want population to be the major criterion, and the poor and backward units plead for any appropriate indicator of backwardness to dominate the scene.

Eventually, each of the Commissions did what it thought practicable in evolving the principles of resource devolution. On the political front that meant the recommendation of such principles which would have least political fall-out in terms of Regional Conflict.¹² On the economic front that meant the adoption of such principles that would help the poorer Regions to catch up with the richer Regions of the federation in their provision of socio-economic services -- so long as such principles were statistically quantifiable.¹³ In the process, the principles of derivation, population and equality-of-state have come to dominate the horizontal inter-governmental resource allocation in Nigeria at one stage or the other.¹⁴

11. See Federal Government of Nigeria, Report of the Fiscal Review Commission, (Binn's Report), 1965, Also see Federal Government of Nigeria, Report of the Presidential Commission on Revenue Allocation, Vol.III, (official Memoranda submitted by the Government of the Federation, State Governments, State Houses of Assembly and Local Government Councils, 1980.
12. In this respect it would be interesting to note that the Binn's Commission of 1965 rejected the principle of derivation for a need-based formula on the ground that it does not allow the needy states to participate adequately in the revenues of the federation. However, the Commission admitted that a persistent application of need-based formula would involve much redistribution that would be politically impossible. Interestingly, the rich and powerful Regions denounced its recommendations and the Report was subsequently rejected, See Binn's Commission Report, *ibid*.
13. It could be noted here that the Philipson's Commission of 1946 discarded the principle of "even progress" because of "unreliable data on the relative well-being of each Region", See The Government of Nigeria, Administrative and Financial Procedure under the new Constitution : Financial Relations between the Government of Nigeria and the Native Administration, (Philipson's Report), 1946. Similarly, Okigbo's Commission could not incorporate the States Domestic Product (or state-wise per capita income) in its formula of inter-state allocation due to what it called "paucity of data". For the same reason it eliminated many other indicators of socio-economic development. See, The Federal Government of Nigeria, Report of the Presidential Commission on Revenue Allocation, Vol.I, 1980, pp. 98-99.
14. For details of these principles see section IV.2 (the principles of revenue allocation) of chapter three of this thesis.

II. ISSUES EXAMINED

The following issues have been examined to ascertain the degree and dimension of inter-regional fiscal disparities in Nigeria.

1. Are horizontal fiscal imbalances present in Nigeria as conceived by experts ?
2. Is the degree of inter-regional fiscal inequality in Nigeria high as is generally perceived?
3. Does the high degree of fiscal disparity lead to progressive fiscal transfers or not ?

III. INTER-REGIONAL FISCAL DISPARITIES IN NIGERIA : IN TERMS OF PER CAPITA INDEPENDENT REVENUES

In this section an attempt has been made to investigate into the nature of inter-regional fiscal disparities in Nigeria. The analysis here is based on per capita independent revenue of the regions and not on the absolute amount as the latter does not take into account the population of the respective regions and does not facilitate regional comparison as the former does.

Table 7.01 presents data on per capita independent revenue of the regions and reveals that the fiscal disparities amongst the Regions were very high. The per capita independent revenue of the Eastern Region was above the all-Regions' average¹⁵ in all years excepting 1956-57, 1968-71, 1973-75, 1977, 1979, 1984-86, and 1988. On the other hand the per capita independent revenue of Western Region was above the all-Regions' average in all the years except 1958- 61. In a big contrast, however, column 4 of the table reveals that

15. Average here refers to simple average and has been calculated with the formula

$$\bar{X} = \frac{\sum X}{N} \quad \text{where } \bar{X} = \text{Average}$$

X = Per capita independent revenue etc of states
ΣX = summation of the X variable, and
N = Number of observations, ie, number of regions

TABLE 7.01
PER CAPITA TOTAL INDEPENDENT REVENUE OF THE
NIGERIAN REGIONS, 1956-88

(AMOUNT IN NAIRA)

YEAR	EASTERN REGION	WESTERN REGION	NORTHERN REGION	ALL-REGIONS' AVERAGE
1	2	3	4	5
1956	0.43	0.65	0.54	0.54
1957	0.95	5.00	1.06	2.34
1958	1.11	0.77	0.70	0.86
1959	1.01	0.42	0.62	0.68
1960	1.00	0.73	0.51	0.75
1961	1.32	0.75	0.49	0.85
1962	1.49	1.60	0.70	1.26
1963	1.33	1.59	0.51	1.14
1964	1.36	1.40	0.53	1.10
1965	1.51	1.50	0.63	1.21
1966	1.74	1.52	0.59	1.28
1967	2.08	2.11	0.85	1.68
1968	0.00	1.99	0.93	0.97
1969	0.00	2.59	0.84	1.14
1970	0.00	3.66	1.24	1.63
1971	3.40	4.99	3.80	4.06
1972	3.95	4.43	2.86	3.75
1973	3.53	4.93	2.40	3.62
1974	4.71	5.96	3.51	4.73
1975	6.16	8.37	4.65	6.39
1976	7.16	8.22	4.53	6.64
1977	9.99	16.79	6.94	11.24
1978	18.23	23.77	9.33	17.11
1979	9.14	16.63	6.61	10.79
1980	39.27	42.50	18.03	33.27
1981	37.75	49.55	21.55	36.28
1982	51.40	41.21	23.10	38.57
1983	51.72	62.62	29.36	47.90
1984	19.06	32.28	8.22	19.85
1985	22.18	41.92	9.91	24.67
1986	25.66	44.01	16.33	28.67
1987	62.12	81.35	34.95	59.47
1988	65.84	93.95	46.47	68.75

SOURCE: (1) Federal Office of Statistics, Lagos,
(2) Central Bank of Nigeria, Lagos, and
(3) National Population Commission, Lagos.

NOTE: (1) Data for the Eastern Region were not available for the period 1968-70 as the Region was engaged in a civil war with the Federal Government.
(2) Figures for the period 1968-88 have been derived from the aggregation of the same of the States created out of the erstwhile three Regions as these Regions ceased to exist in 1967.
(3) All figures are at Current Prices.
(4) See note 15 for calculation of All Regions' Average

except in 1956 when the per capita independent revenue of the Northern Region was equal to the all-Regions' average, it stood far below it in the remaining years. Thus, it is noted that as against the all-Regions' average of 0.54 Naira in 1956, the per capita independent revenues of Eastern, Western and Northern Regions stood at 0.43, 0.65 and 0.54 Naira respectively. By 1988, these figures stood at N65.84, N93.95 and N46.47 respectively as against the all-Regions' average of N68.75. During this period, the compounded annual average, growth rate of the per capita independent revenue of the Eastern, Western and Northern Regions stood at 16.46%, 16.26% and 14.47%. This was against the 15.83% recorded by the average of all-Regions' average per capita independent revenue.

The above results establish the presence of a high fiscal disparity amongst the Nigerian regions, on the one hand, and on the other hand, also reveal that the resource bases of the Northern Region are less bouyant (in per capita terms) when compared with those of the Eastern and the Western Regions. Hence, one can conclude that the Northern Region can be regarded as a poorest region in Nigeria -- in terms of its ability to generate revenues from its own sources. Therefore, the Northern Region which is the largest in area and in population turns out to be the weakest in resources. This, therefore, makes this Region mostly in need of federal assistance in augmenting its revenue. In the absence of such assistance it would be extremely difficult for it to sustain itself, and least, feel comfortable in a federation where the other regions are relatively wealthier. This type of fiscal imbalance creates tensions and generates instability in the federal set-up. This was amply demonstrated in Nigeria itself when one of the richest regions, the East, expressed dissatisfaction with the financial arrangement in the Nigerian federal polity. The breaking point came when this Region declared its independence in 1967 which was followed by a bloody civil war.

IV. DISPARITY IN PER CAPITA EXPENDITURE OF THE REGIONS

Government expenditure includes current and capital expenditures, i.e., expenditures meeting recurrent needs of the governments, (current), and those used to

create or dispose off assets or liabilities of permanent nature, (capital)¹⁶. A comparison between the welfare of one citizen residing in a particular region and the other residing in another region is facilitated by per capita expenditure, hence variations in per capita expenditures of Nigerian regions are examined here.

Table 7.02 shows the per capita expenditure of the Regions in Nigeria. It reveals that imbalances in the per capita expenditure exist amongst the Regions. While the per capita expenditure was relatively higher in the Western Region in most of the years, it was lowest in the Northern Region in all the years. The East occupied the second position. The Table further reveals that the Eastern Region enjoyed equal or above the all-Regions' average per capita expenditure in most of the years. On the other hand, the Western Region stood quite ahead of the all-Regions' average in all the years (see column 3). In a sharp contrast, however, column 4 reveals that the per capita expenditure of the Northern Region was far below the all-Regions' average in all the years. The only exception being 1968 (the first year of the civil war) when it was slightly above the all-Regions' average.

The growth rate of per capita expenditure of the North was 14.73% between 1956-88 against 13.57% by the East and 10.25% by the West, during the same period. If we consider per capita expenditure as a proxy for provision of public services, then these expanded at faster rate in the North than in the other two regions. The above results are indicative of wide variations in the level of public provision across the regions of Nigeria. Thus, whereas the Eastern and Western Regions were able to provide a higher and comparable level of public services to its residents, the Northern region was quite unable to do so. This would, therefore, call for a strong discriminatory central transfers that would favour the Northern region more than the others - since the fiscal capacity of this region is also very low. In doing this, the centre would be discharging its obligation of ensuring that the citizens of each federating unit enjoys a service-level that is comparable with that of other units. The need for the central transfers arises from the fact the glaring disparities in the per capita independent revenue and per capita expenditure of the regions inter se are likely to generate social and economic tensions in the country which would destabilize it.

16. For details see section IV of chapter four of this thesis.

TABLE 7.02
PER CAPITA TOTAL EXPENDITURE OF THE
NIGERIAN REGIONS, 1956-88

(AMOUNT IN NAIRA)

YEAR	EASTERN REGION	WESTERN REGION	NORTHERN REGION	ALL-REGIONS' AVERAGE
1	2	3	4	5
1956	2.00	2.91	1.09	2.00
1957	2.77	4.09	1.39	2.75
1958	2.05	3.29	1.67	2.34
1959	2.66	3.78	1.56	2.67
1960	3.25	5.04	1.78	3.35
1961	3.60	5.39	1.71	3.56
1962	5.01	5.60	2.11	4.24
1963	5.23	5.01	2.19	4.14
1964	5.16	4.07	2.31	3.85
1965	5.92	5.90	2.90	4.91
1966	5.89	5.98	2.84	4.90
1967	6.98	6.47	2.89	5.45
1968	0.00	5.06	2.79	2.62
1969	0.00	5.47	2.59	2.69
1970	0.00	7.95	3.90	3.95
1971	4.96	7.05	3.07	5.03
1972	6.47	8.74	4.43	6.54
1973	8.91	10.86	5.66	8.47
1974	11.11	12.92	7.44	10.49
1975	31.17	36.99	18.13	28.76
1976	41.94	43.26	25.71	36.97
1977	48.89	52.59	34.29	45.26
1978	53.46	60.48	38.48	50.81
1979	54.56	62.62	38.00	51.72
1980	146.31	134.73	90.79	123.94
1981	168.24	168.22	119.05	151.84
1982	146.01	147.93	116.27	136.74
1983	142.17	159.44	109.49	137.03
1984	70.45	82.37	51.61	68.14
1985	89.43	110.04	65.45	88.31
1986	75.98	95.38	57.72	76.36
1987	117.55	136.36	89.43	114.45
1988	132.88	132.88	101.92	122.56

SOURCE : As given in Table 7.01.

NOTE : Please refer to notes of Table 7.01.

V. THE GAP BETWEEN EXPENDITURE AND INDEPENDENT REVENUE OF THE REGIONS OF NIGERIA

This section intends to examine the state of independent revenue of the respective jurisdictions, and their expenditures in Nigeria. The purpose here is to inquire into the general belief that in a federation, the pre-transfers deficits are a common feature of the budget of all the federating units, which implies that in the absence of federal transfers, no governmental unit would be able to discharge its expenditure obligations from its own resource bases.

Table 7.03 shows the pre-transfers budget deficits of the Nigerian Regions. From here it is noted that none of the Regions was able to generate enough resources from its own revenue bases that closely commensurated its expenditure obligations. This is reflected in the budget deficits faced by all the regions throughout the period (except for Western region in 1957).¹⁷ It has also been noted that the deficits rose substantially over the period for all the regions. Thus, for the Eastern Region, the increase was by 97.54 times -- from N17.08 million in 1956 to N1665.92 million in 1988, (see column 2 of table 7.03). The increase for Western region was by 40.95 times -- from N26.60 million in 1956 to N1089.40 million in 1988, (see column 3), while the rise was by 233.95 times for the Northern Region -- from a mere N14.02 million in 1956 to N3279.95 million in 1988, (see column 4). Thus, while none of the regions could finance its own expenditure from its own sources, the problem grew more rapidly in the case of the Northern Region than has been noticed in the East or West. Hence, in the absence of federal transfers, the North would be much more in a difficult position to provide its citizens the public services, than the Eastern and Western Regions. The increased deficits also indicate the increase in dependency of the Regions on the Centre. This is what happens when increase in the demand for public services which the Regions provide are not accompanied by corresponding increases in their independent revenues.

17. This was made possible by unprecedented capital receipts in this year.

TABLE 7.03

**PRE-TRANSFERS' BUDGET POSITION OF THE
NIGERIAN REGIONS, 1956-88**

YEAR	ABSOLUTE AMOUNT IN MILLION OF NAIRA			PER CAPITA AMOUNT IN NAIRA			
	EASTERN REGION	WESTERN REGION	NORTHERN REGION	EASTERN REGION	WESTERN REGION	NORTHERN REGION	ALL REGIONS' AVERAGE
1	2	3	4	5	6	7	8
1956	-17.08	-26.60	-14.02	-1.57	-2.26	-0.54	-1.46
1957	-20.24	+ 10.95	-8.67	-1.82	+ 0.91	-0.33	-0.41
1958	-10.58	-30.72	-26.08	-0.93	-2.51	-0.97	-1.47
1959	-19.05	-41.87	-25.96	-1.65	-3.36	-0.95	-1.98
1960	-26.43	-54.74	-35.35	-2.24	-4.30	-1.26	-2.60
1961	-27.37	-60.22	-34.83	-2.28	-4.64	-1.22	-2.71
1962	-43.14	-52.93	-40.97	-3.52	-4.00	-1.41	-2.98
1963	-48.73	-46.19	-49.85	-3.90	-3.42	-1.68	-3.00
1964	-48.82	-36.97	-54.16	-3.81	-2.67	-1.78	-2.75
1965	-57.95	-62.46	-70.84	-4.41	-4.40	-2.27	-3.69
1966	-55.94	-64.96	-72.03	-4.15	-4.46	-2.25	-3.62
1967	-67.70	-65.14	-67.05	-4.90	-4.36	-2.04	-3.77
1968	0.00	-47.04	-63.04	0.00	-3.07	-1.86	-1.65
1969	0.00	-45.21	-60.88	0.00	-2.88	-1.75	-1.54
1970	0.00	-69.25	-94.61	0.00	-4.29	-2.66	-2.32
1971	-23.88	-34.27	26.63	-1.56	-2.07	0.73	-0.97
1972	-39.46	-73.40	-58.57	-2.52	-4.30	-1.56	-2.80
1973	-86.28	-103.75	-125.12	-5.38	-5.92	-3.26	-4.85
1974	-105.42	-125.70	-154.82	-6.39	-6.96	-3.92	-5.76
1975	-423.59	-532.71	-546.31	-25.01	-28.62	-13.48	-22.37
1976	-605.15	-672.03	-881.88	-34.78	-35.04	-21.17	-30.33
1977	-695.54	-707.19	-1170.67	-38.90	-35.81	-27.35	-34.02
1978	-647.51	-747.02	-1282.35	-35.23	-36.71	-29.15	-33.70
1979	-857.51	-964.97	-1418.66	-45.42	-45.99	-31.39	-40.94
1980	-2026.30	-1998.65	-3390.91	-107.04	-92.23	-72.75	-90.67
1981	-2556.37	-2654.57	-4678.21	-130.49	-118.67	-97.50	-115.55
1982	-1917.82	-2464.09	-4606.38	-94.61	-106.72	-93.17	-98.17
1983	-1896.68	-2306.25	-4081.64	-90.45	-96.82	-80.13	-89.13
1984	-1115.31	-1233.80	-2277.91	-51.40	-50.09	-43.39	-48.29
1985	-1518.43	-1719.48	-2986.08	-67.25	-68.13	-55.54	-63.64
1986	-1173.97	-1341.42	-2297.22	-50.32	-51.38	-41.39	-47.70
1987	-1333.75	-1486.89	-3117.80	-55.43	-55.01	-54.48	-54.97
1988	-1665.92	-1089.40	-3279.95	-67.04	-38.93	-55.45	-53.81

SOURCE : Same as per Table 7.01.

NOTE : (1) (-) implies deficit while (+) implies surplus.

(2) Refer to the notes of Table 7.01.

The per capita distribution of the pre-transfers deficit of the regions is shown in columns 5 to 8 of table 7.03. From here it is noted that the per capita deficits were higher in the Eastern and Western Regions than in the Northern Region almost in all the years. This thereby implies that should pre-transfers per capita deficit be taken as an indicator of financial need, then these two regions which are comparatively richer than the North (in terms of per capita independent revenue) also depend more on the centre to carry out their budget outlays. It is, however, observed that the per capita pre-transfers budget deficit of the East and the West have increased less rapidly than the North's. Thus, while that of the East rose by 42.70 times - from N1.57 in 1956 to N67.04 in 1988, and the West's by 17.26 times -- from N2.26 to N38.93 in the same period, the per capita pre-transfers deficit of the North increased by 102.69 times -- from 0.54 Naira in 1956 to N55.45 in 1988. This thereby implies that during the period of this study, the fiscal dependence of the Northern Region on the federal government has grown more rapidly than is the case with the Eastern and Western Regions.

VI. DISPARITY IN FEDERAL TRANSFERS TO THE REGIONS IN NIGERIA

Like in any other federation, the federal transfers to the lower-level governments in Nigeria aim primarily at two things, viz., to augment the independent revenue of the regions, and to reduce the inter-regional fiscal disparity. Thus, the magnitude of federal transfers and its direction will depend to a great extent on the pre-transfers budget deficits of the respective regions on the one hand, and on the degree of the inter-regional fiscal disparity on the other hand. Hence, it is expected that higher the gap between the revenue and expenditure of the regions, as well as the variation in their fiscal capacities, or performance (the ability of the respective regions to raise revenues from their own sources, or provide standard public services to their citizens) the higher would be the quantum of federal fiscal transfers. As we have observed in the analysis above, the Nigerian regions showed a huge pre-transfers budget deficits as well as a high degree of inter-regional fiscal variations. This thereby called for a sizeable amount of federal transfers to the regions. These transfers generally fall into three categories - statutory transfers, federal grants and federal loans.¹⁸

18. The conceptual analysis of these methods of transfers has been dealt with in chapter 5.

VI.1. DISPARITY IN PER CAPITA STATUTORY TRANSFERS TO THE REGIONS IN NIGERIA

Table 7.04 shows wide disparities in per capita statutory transfers to the regions in Nigeria. Except in the years, 1956-60, 1968-72 and 1986 the per capita statutory transfers to the Eastern Region were below the all regions' average. For the Western Region, the per capita transfers were above the all-regions' average in all the years except only in 1988. In a sharp contrast, however, column 4 of the table indicates that per capita statutory transfers to the Northern Region remained below the all-regions' average throughout the period except only in 1970. Thus, as against the all-regions' average of N1.13 per capita transfers in 1956, the receipts by Eastern, Western and Northern Region stood at 1.06, 1.80, and 0.52 Naira respectively. By 1988, the per capita statutory transfers to these respective regions were N106.31, N101.54 and N99.64 as against the all- Regions' average of N102.50. Thus, one observes that throughout this period of study, the Western Region (the richest regions in terms of per capita independent revenue) received the highest per capit statutory transfers - (the only exceptions being in 1976, 1979-80, 1982, 1987-88). On the other hand, the Northern Region (the poorest region in terms of per capita independent revenue) received the lowest per capita aggregate statutory transfers during the same period. The Eastern Region occupied the second position with the exception of few years when it ranked first.

The above results, therefore suggest that the statutory transfers in Nigeria were regressive as the richer regions got higher per capita transfers and vice versa. Nevertheless, the compounded annual average growth rate of per capita statutory transfers to the Eastern, Western and Northern Region stood at 14.98%, 12.99% and 17.25% respectively between 1956 and 1988. This reflects an increase by 100.29 times for the East, 56.41 times for the West, and 191.62 times for the North between this period. This thereby implies that the increase in federal obligatory transfers to the Northern Region has been more rapid than in the other two regions. This would suggest an attempt towards progressivity in the statutory transfers mechanism.

TABLE 7.04
PER CAPITA TOTAL STATUTORY TRANSFERS TO THE
NIGERIAN REGIONS, 1956-88

(AMOUNT IN NAIRA)

YEAR	EASTERN REGION	WESTERN REGION	NORTHERN REGION	ALL-REGIONS' AVERAGE
1	2	3	4	5
1956	1.06	1.80	0.52	1.13
1957	1.24	1.91	0.59	1.25
1958	1.25	2.02	0.58	1.28
1959	1.28	2.17	0.60	1.35
1960	1.54	2.24	0.85	1.54
1961	1.71	2.47	0.93	1.70
1962	1.84	2.49	1.12	1.82
1963	2.24	2.51	1.08	1.94
1964	2.15	2.35	1.17	1.89
1965	2.70	2.97	1.58	2.42
1966	2.92	3.12	1.49	2.51
1967	2.97	3.08	1.49	2.51
1968	0.00	2.74	1.23	1.32
1969	0.00	2.65	1.14	1.26
1970	0.00	4.69	2.99	2.56
1971	4.63	6.78	3.16	4.86
1972	4.31	6.33	3.71	4.78
1973	5.68	6.20	3.46	5.11
1974	6.36	7.77	3.72	5.95
1975	16.62	18.41	7.46	14.16
1976	15.01	13.53	10.26	12.94
1977	20.95	21.44	16.37	19.59
1978	25.05	26.19	19.17	23.47
1979	21.44	21.24	17.41	20.03
1980	57.78	55.55	46.94	53.42
1981	56.62	56.98	53.65	55.75
1982	54.63	51.99	46.89	51.17
1983	47.16	47.26	41.03	45.15
1984	48.22	48.94	43.17	46.78
1985	61.93	61.80	55.87	59.87
1986	43.08	44.95	42.25	43.43
1987	96.81	97.29	88.03	94.04
1988	106.31	101.54	99.64	102.50

SOURCE : As per Table 7.01.

NOTE : See notes of Table 7.01.

It is, however, pertinent to point out that the rapid growth in the per capita aggregate statutory transfers to the Northern Region was made possible by the decline influence of "derivative criterion"¹⁹ as a principle of horizontal allocation. Whereas, this inequitable principle dominated the horizontal devolution formula upto 1969, the principles of "population"²⁰ and "equality-of-states"²¹ which proved more equitable were given higher weightage from 1970. Hence, the share of the Northern Region in the aggregate statutory transfers to the regions increased from 29.17% in 1956 to 51.81% in 1988, while that of the Eastern and Western Regions declined from 25.01% to 23.22%, and from 45.82% to 24.97% respectively during the same period.

VI.2. DISPARITY IN PER CAPITA FEDERAL GRANTS TO THE REGIONS IN NIGERIA

Grants, as explained earlier, are basically conditional capital transfers which are expected to focus on the correction of the distortion in resource allocation in a federation.²² Although in Nigeria, grant system had this objective, it was a different story whether it was designed to achieving the same. This skepticism stems from the fact that the grant system in Nigeria was poorly planned, and worst, it was arbitrarily allocated to the regions till 1971 when it was mainly devolved on the basis of the two principles of population and equality-of-state. Thus, from 1971, it seemed that the grants were designed to achieve the same objectives -- in providing for current budget need of the regions with a view at equalization of service levels -- as the statutory transfers since the obligatory transfers are devolved mainly on the basis of this same two principles.

The per capita federal grants to the Nigerian Regions are depicted in table 7.05 covering the period 1959-79 as these are the years during which these transfers were used as a method of fiscal adjustment in Nigeria. From this table it has been observed that the

19. See section IV.2.1 of chapter 3 for the interpretation of this principle.

20. See section IV.2.3 of chapter 3 for the interpretation of this principle.

21. See section IV.2.2 of chapter 3 for the interpretation of this principle.

22. For details of theoretical issues of federal grants in this work, see section II of chapter 5 of this thesis.

TABLE 7.05
PER CAPITA FEDERAL GRANTS TO THE
NIGERIAN REGIONS, 1959-79

(AMOUNT IN NAIRA)

YEAR	EASTERN REGION	WESTERN REGION	NORTHERN REGION	ALL-REGIONS' AVERAGE
1	2	3	4	5
1959	0.18	0.00	0.27	0.15
1960	0.19	0.16	0.00	0.08
1961	0.12	1.98	0.00	0.51
1962	0.68	0.00	0.01	0.16
1963	0.33	0.30	0.02	0.16
1964	0.72	0.19	0.11	0.26
1965	0.30	0.45	0.08	0.22
1966	0.41	0.24	0.16	0.24
1967	0.51	0.46	0.08	0.27
1968	0.00	0.04	0.03	0.03
1969	0.00	0.02	0.05	0.03
1970	0.00	0.00	0.02	0.01
1971	0.22	0.14	0.17	0.17
1972	0.33	0.22	0.32	0.30
1973	0.25	0.21	0.27	0.25
1974	0.26	0.24	0.26	0.25
1975	3.95	3.53	3.01	3.35
1976	7.61	7.07	6.34	6.80
1977	5.52	5.50	5.07	5.28
1978	6.70	6.69	6.22	6.44
1979	9.73	9.99	9.61	9.73

SOURCE : As given in Table 7.01.

NOTE : (1) The Federal Grants were first made available to the Regions in 1959 and were discontinued after 1979.
(2) For other details see the notes of Table 7.01.

variations in the per capita federal grants to the regions were immense. Column 2 of this table shows that except in 1961, the war years (1968-70) and 1973, the per capita federal grants to the Eastern Region stood above the all-regions' average. On the other hand, column 3 shows that while the transfers to the Western Region were below the average in 1959, 1962, 1964 and 1969-74, it stood above the same in the remaining years. As for the Northern Region, the per capita federal grants were above the all-regions' average in 1959, 1968-70 and 1972-74. It was below it in the remaining years.

The above results show that the grant system in Nigeria was not well designed, making its objective in respect to horizontal fiscal equalization seem very ambiguous. It is noted, therefore, that as against the all-regions' average per capita federal grants of 0.15 Naira in 1959, Eastern, Western, and Northern Region received 0.18, 0.00 and 0.27 Naira respectively. By 1979, the transfers to these regions were N9.73, N9.99 and N9.61 respectively against the all-regions' average of N9.73. The growth rates of per capita federal transfers were 20.90% for the East, 22.95% for the West and 18.55% for the North. Thus, the per capita federal grants to the East rose by 54.06 times, that of the West rose by 62.44 times while that of the Northern Region increased by only 35.59 times during this period. This thereby means that the richest region (in terms of per capita independent revenue), the West, observed the most rapid increase in its grant receipts. On the other hand, the financially weakest region, the North, recorded the least rapid increase in its per capita federal grants. The above would, therefore, suggest that the federal grants to the regions, over this period, did not show sufficient inter-regional discrimination which would permit higher resource transfers to the poorer region and vice versa. Hence, it could be deduced that the federal grants to the regions showed elements of regressiveness.

VI.3. DISPARITY IN PER CAPITA FEDERAL LOANS TO THE REGIONS IN NIGERIA

The federal loans as pointed out in chapter five are the second category of capital transfers to the Regions. Like the federal grants, federal loans were designed to assist the regions in financing the capital projects. The per capita federal loans to the regions in Nigeria are shown in table 7.06. Like the federal grants, this table indicates that prior to 1971, the federal loans to the regions were poorly designed as they were arbitrarily awarded. Hence, the wide variations in the per capita federal loans to the regions. From 1971, the two principles of population and equality-of-states were inducted as the devolution criteria. Thus, causing a narrowing-down of variations amongst the regions. It is therefore, noted from the table that while the per capita federal loans to the East, West and North stood at 0.17, 0.00 and 0.00 Naira respectively in 1956 as against the all-regions' average of 0.06 Naira,

TABLE 7.06
PER CAPITA FEDERAL LOANS TO THE
NIGERIAN REGIONS, 1956-86

(AMOUNT IN NAIRA)

YEAR	EASTERN REGION	WESTERN REGION	NORTHERN REGION	ALL-REGIONS' AVERAGE
1	2	3	4	5
1956	0.17	0.00	0.00	0.06
1957	0.00	0.17	0.00	0.06
1958	0.00	0.00	0.00	0.00
1959	0.00	0.00	0.15	0.05
1960	0.10	0.00	0.20	0.10
1961	0.00	0.00	0.46	0.15
1962	0.28	0.00	0.00	0.09
1963	0.32	0.44	0.20	0.32
1964	0.31	0.29	0.20	0.27
1965	0.34	0.60	0.26	0.40
1966	0.31	0.22	0.00	0.18
1967	0.30	0.64	0.24	0.40
1968	0.00	0.13	0.00	0.04
1969	0.00	0.22	0.17	0.13
1970	0.00	0.39	0.39	0.26
1971	0.45	0.37	0.40	0.41
1972	2.74	2.62	2.52	2.63
1973	5.26	5.21	5.30	5.26
1974	6.58	4.98	5.28	5.61
1975	6.34	5.04	5.61	5.66
1976	8.36	9.73	8.77	8.95
1977	9.53	11.18	10.33	10.35
1978	9.51	9.99	9.71	9.74
1979	5.84	6.09	5.96	5.96
1980	3.50	3.59	3.42	3.51
1981	5.20	5.00	4.74	4.98
1982	5.62	5.61	4.76	5.33
1983	4.62	4.59	4.23	4.48
1984	24.18	21.40	20.60	22.06
1985	21.52	21.79	20.69	21.34
1986	5.47	5.38	5.08	5.31

SOURCE : As per Table 7.01.

NOTE : (1) Data for Federal Loans to the States in 1987 and 1988 were not available.
(2) For other details refer to notes of Table 7.01.

the figures stood at N5.47 for the East, N5.38 for the West and N5.08 for the North in 1986 -- the year when federal loans were last made to the regions. The all-regions' average was N5.31 in this year.

However, it is observed from column 2 of the table that the Eastern Region received above-average per capita transfers in the years, 1956, 1960, 1962, 1964, 1966, 1971- 75, and 1981-88 and below the all-regions' average in the remaining years. Similarly, column 3 indicates that the Western Region stood above the all-regions' average in 1957, 1963-70, 1976-83 and 1985-86 while it stood below the all-regions' average in the remaining years. In a striking contrast, however, the Northern Region received above the all-regions' average per capita federal loans only in six years - 1959-61, 1969-70 and 1973. It received below it in the remaining years. This thereby indicates that the richer regions received higher per capita loan transfers implying that the federal loans to the regions in Nigeria were generally regressive.

Nevertheless, while the compounded annual average growth rates of the per capita transfers to the Eastern and Western Regions stood at 11.84% and 12.20% respectively, it was 13.42% for the Northern Region. Thus, per capita transfers to Northern Region increased by 33.87 times between 1959 (when loans were first made to the Northern region) and 1986. This was against the increase of 32.18 times, 31.65 times for the Eastern and Western Regions between 1956 and 1986, and between 1957 and 1986 respectively. Thus, comparatively higher resources were made available to the poorer region - the North - to enable it catch up with the other two regions in capital formation and development. This is a desired goal of horizontal fiscal equity.

VI.4. DISPARITY IN PER CAPITA AGGREGATE FEDERAL TRANSFERS TO THE REGIONS OF NIGERIA

Having examined various categories of federal transfers to the regions of Nigeria, it is deemed necessary to analyse them in an aggregated framework. The per capita aggregate federal transfers to the regions are presented in table 7.07. This table recapitulates our

earlier observations, i.e., that the variations inter se of the regions in federal transfers were high, and that whereas the Eastern and Western Regions generally received above-average per capita transfers, the Northern Region had below the average. Hence, it is noted from column 2 of table 7.07 that except for 1957-59, 1968-70, and 1986, the per capita aggregate federal transfers to the Eastern Region were above the all-regions' average in the remaining years. Similarly, the per capita aggregate transfers to the Western region were above-average in all the years except in 1988. In a big contrast, however, column 4 reveals that the per capita aggregate transfers to the Northern Region stood below the all-regions' average throughout the period with the exception of only 1970.

Thus, it is observed that as against all-regions' average per capita aggregate transfers of N1.18 in 1956, the Eastern Western and Northern Regions received 1.23, 1.80 and 0.52 Naira respectively. This thereby shows a wide variation in the per capita total transfers to the regions in this year. However, in 1988, the per capita aggregate transfers to the East was N106.31, N101.54 for the West and N99.64 for the North. The all-regions' average was N102.50 in this year.

The above results suggest that the aggregate transfers to the regions in Nigeria were regressive as the richer Eastern and Western Regions received higher per capita transfers, than the relatively poor Northern Region. Nevertheless, it is interesting to note that during the period 1956-88, the per capita total transfers to the Eastern Region recorded a compounded annual average growth rate of 15.92%. It was 12.99% for the West and 17.25% for the North. These were against the all-regions' average of 14.47%. Thus, the poorest region, the North, observed the highest growth rate in per capita aggregate transfers whereas the richest region, the West recorded the lowest growth rate. Thus, while the per capita aggregate transfers to the Northern region rose by 191.62 times between 1956 and 1988, the increase for the Western Region was by 56.41 times only during the same period. It was 86.43 times for the East. Hence, although the East and the West received higher per capita federal transfers than the North, these transfers have grown more rapidly for the latter the former two regions implying thereby that the aggregate federal transfers in Nigeria showed

TABLE 7.07
PER CAPITA TOTAL TRANSFERS TO THE
NIGERIAN REGIONS, 1956-88

(AMOUNT IN NAIRA)

YEAR	EASTERN REGION	WESTERN REGION	NORTHERN REGION	ALL- REGIONS' AVERAGE
1	2	3	4	5
1956	1.23	1.80	0.52	1.18
1957	1.24	2.08	0.59	1.30
1958	1.25	2.02	0.58	1.28
1959	1.46	2.17	0.79	1.47
1960	1.83	2.40	1.05	1.76
1961	1.83	4.45	1.39	2.55
1962	2.81	2.49	1.13	2.14
1963	2.90	3.25	1.30	2.48
1964	3.18	2.83	1.48	2.49
1965	3.35	4.02	1.91	3.09
1966	3.64	3.58	1.65	2.96
1967	3.78	4.18	1.82	3.26
1968	0.00	2.91	1.26	1.39
1969	0.00	2.90	1.35	1.42
1970	0.00	5.09	3.40	2.83
1971	5.30	7.28	3.74	5.44
1972	7.38	9.17	6.55	7.70
1973	11.20	11.62	9.03	10.62
1974	13.19	12.99	9.26	11.81
1975	26.90	26.97	16.08	23.32
1976	30.98	30.32	25.37	28.89
1977	36.01	38.12	31.77	35.30
1978	41.26	42.87	35.11	39.74
1979	37.02	37.31	32.98	35.77
1980	61.28	59.14	50.36	56.93
1981	61.82	61.98	58.38	60.73
1982	60.25	57.61	51.65	56.50
1983	51.78	51.85	45.26	49.63
1984	72.40	70.34	63.76	68.83
1985	83.46	83.60	76.57	81.21
1986	48.56	50.33	47.33	48.74
1987	96.81	97.29	88.03	94.04
1988	106.31	101.54	99.64	102.50

SOURCE : As given in Table 7.01.

NOTE : Refer to notes of Table 7.01.

strong equalization tendency. As such, over the years more and more revenues were made available to the Northern Region to enable it catch up with the other two regions in discharging its expenditure obligations. It is interesting to note that the share of the North in the total transfers to the regions rose from 28.08% in 1956 to 51.81% in 1988, it declined from 27.83% to 23.22%, for the East, and from 44.10% to 24.97% for the West during the same period.

VII. DISPARITY IN PER CAPITA TOTAL REVENUE OF THE REGIONS OF NIGERIA

In this section of this study, attempt has been made to analyse the per capita aggregate revenue of Nigerian Regions, and it is represented by the per capita revenue of the regions after all federal transfers. The objective here is to ascertain the extent of variations of the revenues of the regions and also to see whether the gap has narrowed down over the years.

Table 7.08 shows the per capita aggregate revenue of the regions. From this table it is observed that inequality existed in the per capita aggregate revenue of the regions. The table shows that throughout the period of the study, the per capita aggregate revenue of the Eastern Region was above the all-regions' average except in the twelve years, 1956-57, 1961, 1968-72, 1977, 1979 and 1985-86. On the other hand, column 3 of the table reveals that the Western Region was the most better-off state as its per capita aggregate revenue stood quite above the all-regions' average in all the years throughout the period of the study. In a sharp contrast, however, the per capita aggregate revenue of the Northern Region was below the all-regions' average throughout the period of the study, the only exception being 1970.

It is also observed that as against the all-regions' average per capita revenue of N1.72 in 1956, the Eastern Region had N1.66, it was N2.45 for the West and N1.06 for the North. By 1988, the figures stood at N172.15 for the East, N195.48 for the West, and N146.12 for the North. The all-regions' average in this year was N171.25. The above results therefore show that the gap between the Northern Region vis-a-vis the East and the West respectively was wider than the gap between the East and the West. The result also indicates that even after all the transfers, the Northern Region was not in command of sufficient revenues which

TABLE 7.08

PER CAPITA TOTAL REVENUE OF THE
NIGERIAN REGIONS, 1956-88

(AMOUNT IN NAIRA)

YEAR	EASTERN REGION	WESTERN REGION	NORTHERN REGION	ALL-REGIONS' AVERAGE
1	2	3	4	5
1956	1.66	2.45	1.06	1.72
1957	2.19	7.08	1.66	3.64
1958	2.36	2.79	1.29	2.15
1959	2.47	2.59	1.41	2.16
1960	2.83	3.13	1.57	2.51
1961	3.14	5.20	1.88	3.41
1962	4.30	4.09	1.83	3.41
1963	4.23	4.84	1.80	3.62
1964	4.54	4.23	2.01	3.59
1965	4.86	5.51	2.54	4.31
1966	5.38	5.10	2.24	4.24
1967	5.86	6.29	2.67	4.94
1968	0.00	4.89	2.19	2.36
1969	0.00	5.49	2.19	2.56
1970	0.00	8.74	4.64	4.46
1971	8.69	12.27	7.54	9.50
1972	11.33	13.60	9.41	11.45
1973	14.73	16.56	11.43	14.24
1974	17.90	18.95	12.77	16.54
1975	33.07	35.34	20.74	29.71
1976	38.14	38.55	29.91	35.53
1977	45.99	54.91	38.71	46.54
1978	59.49	66.64	44.44	56.85
1979	46.15	53.94	39.59	46.56
1980	100.55	101.65	68.39	90.20
1981	99.57	111.54	79.93	97.01
1982	111.65	98.81	74.75	95.07
1983	103.50	114.47	74.63	97.53
1984	91.46	102.62	71.98	88.69
1985	105.64	125.51	86.48	105.88
1986	74.22	94.34	63.66	77.40
1987	158.93	178.64	122.98	153.52
1988	172.15	195.48	146.12	171.25

SOURCE : Same as per Table 7.01.

NOTE : See notes of Table 7.01.

would be comparable with that of the other regions. This, in other words would imply that it was unable to provide its citizens public-services at comparable level with the other two regions, as its per capita total revenue was relatively very low even after federal transfers.

However, it is also noted that during 1956-88, the per capita aggregate revenue of the Northern Region grew faster than the East and the West. Thus, while the compounded annual average growth rate of the per capita revenue of the North stood at 16.09%, it was 15.09% for the East and 14.18% for the West. This reflects an increase by 137.85 times for the North, 103.70 times for the East and 79.79 times for the West. This, therefore shows that over this period, the gap in per capita revenue of the regions narrowed down. This would, thus, imply that during the period of the study the disparity in the ability of the respective regions in providing their citizens public services was reduced. The decline in the disparity of the per capita aggregate revenue of the regions was made possible by the rapid growth in the aggregate federal transfer to the Northern Region as noted earlier, than the increases observed by the other regions. Hence, we can say that the federal transfers to the regions in Nigeria did reduce the disparity in their fiscal capacities as reflected by their per capita independent revenues.

APPENDIX TABLE VII
POPULATION ESTIMATES OF THE REGIONS OF NIGERIA

YEAR	EASTERN REGION	WESTERN REGION	NORTHERN REGION	TOTAL
1	2	3	4	5
1956	10.88	11.75	25.85	48.48
1957	11.10	11.99	26.37	49.46
1958	11.32	12.23	26.90	50.45
1959	11.55	12.47	27.44	51.46
1960	11.78	12.72	27.99	52.49
1961	12.01	12.98	28.55	53.54
1962	12.25	13.24	29.12	54.61
1963	12.50	13.50	29.70	55.70
1964	12.82	13.85	30.46	57.13
1965	13.15	14.20	31.25	58.60
1966	13.49	14.57	32.05	60.11
1967	13.83	14.94	32.87	61.64
1968	14.15	15.30	33.84	62.29
1969	14.51	15.73	34.71	64.94
1970	14.88	16.14	35.59	66.61
1971	15.26	16.59	36.52	68.37
1972	15.65	17.05	37.45	70.15
1973	16.05	17.52	38.41	71.98
1974	16.49	18.06	39.46	74.01
1975	16.94	18.61	40.54	76.09
1976	17.40	19.18	41.65	78.22
1977	17.88	19.75	42.80	80.43
1978	18.38	20.35	43.99	82.76
1979	18.88	20.98	45.19	85.05
1980	18.93	21.67	46.61	87.21
1981	19.59	22.37	47.98	89.94
1982	20.27	23.09	49.44	92.80
1983	20.97	23.82	50.94	95.73
1984	21.70	24.63	52.50	98.83
1985	22.58	25.24	53.76	101.58
1986	23.33	26.11	55.50	104.94
1987	24.06	27.03	57.23	108.32
1988	24.05	27.98	59.15	111.98

SOURCE : National Population Commission, Lagos.