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Transfer Dependence and Regional Disparities: the Case of Nigeria

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Introduction

The purpose of this study is to investigate the impact of federal transfers to state and local governments on regional disparities in Nigeria. The study also assesses economic and political reforms enacted by the new democratic government to reduce interregional conflict. We will first provide background information on Nigerian federalism, followed by a discussion of regional disparities and a comparative study between a state from the Northern agricultural region (Kano), a state from the Eastern oil producing region (Delta) and a state from the Southern agricultural region (Ondo). The comparison helps illustrate the impact of revenue allocation on key economic and social indicators.

Earlier literature on spatial economic development stipulates that regional disparities in terms of income, education or health services tend to diminish over time due to market forces (Kuznets (1955), Hirschman (1958), Williamson (1965)). With increased factor mobility, physical capital tends to move from more affluent to less affluent regions and human capital from less affluent to more affluent regions. The process is facilitated by political decentralization. Tanzi argues that decentralization is particularly attractive in heterogeneous societies and regionally divided countries. The analysis echoes Weingast et al (1995) analysis of market preserving federalism which also considers local fiscal power to be growth enhancing.

Persistent regional disparities in countries such as Brazil or Russia led several authors to question the validity of the positive effect of decentralization on economic performance and hence on interregional equity (Wibbles (2000), Treisman (2000)).

In this paper, we investigate other causes of regional disparities in federal systems: transfer dependence. Specifically, we will show how growing dependence on oil revenues in Nigeria resulted in a more centralized federal system causing instability in revenue allocation and promulgated regional government dependence on central transfers. We argue that discretionary transfer systems left inequality

\[ \text{\footnotesize \cite{Wibbles, Treisman}} \]

\[ \text{\footnotesize \cite{1 Very preliminary and incomplete draft. Prepared for Federalism Conference, June 6-7 2002, Stanford University.}} \]
between the North and other regionsuncorrected while generating the marginalization of the oil producing
states federalism may hinge on underlying institutional structures which raise accountability.

I. Theoretical Background

Oates’ (1972) decentralization theorem states that welfare will be maximized when each local
jurisdiction provides public goods. Each local government correspondsto a subset of the entire citizenry
and is defined as having similar tastes for or consumption of the same amount of the public good. Thus,
since local public goodshavespatial characteristics, local governments will be better able to discern and
deliver local, varying preferences. The assumption is that the central government cannot provide the local
public good more efficiently than local government. In this way, local governments exploit their
informational advantages and bypass the uniform bundle of public goods which would likely be provided
through central government provision—and which would likely result in some jurisdictions consuming
suboptimal levels. Tiebout’s (1956) consideration of consumer mobility strengthens the case for
decentralization: consumers “vote with their feet” and select the best-suited community for them. Tiebout’s
model contains several assumptions including that communities differ, consumers react to and are aware of
thesedifferences and voters are mobile. Thus, “consumer-voters” move to a community that provides the
most optimal mix of goods preferred and through their mobility, their voice is heard. The assumption of
mobility is particularly crucial because “moving or failing to move replaces the usual market test of
willingness to buy a good and reveals the consumer-voter’s demand for public goods (420).” Therefore,
decentralization helps to discern preferences for public goods and each jurisdiction’s expenditure allocation
will represent the demands of its constituents. In this way, an optimal solution in the public sector emerges,
analогousto benefits in the private sector derived by a competitive sector.

Tanzi (1995) states that Oates’ argument can be extended to includestabilization and redistribution
policies as well (Oates retained thesetwo functions of the public sector to the central government) “if the
preferences of populations living in different regions are not similar (299).” To illustrate his point he cites
EU countries that might have different target inflation and unemployment rates, for example, and would
suffer welfare losses if the EUs were to force them to choose similar policies instead of ones that reflected
local preferences. Similar line of research is the theory of market preserving federalism provided by
Weingast et al (1995). Their objective is to provide a framework by which the central government is
powerful enough to secure property rights while limited in its ability to interfere in the market. The model
can roughly be described as decentralized control over the economy contained in a common market,
whereby the institutional framework fosters growth. Modern China, certain periods in US history, and 18th
century England conform to market preserving federalism—therefore it is not the formal declaration of federalism that matters but the de facto functioning of institutions.

As mentioned above, however, decentralization in practice appears to have a mixed track record, and countries such as Brazil, Argentina, and Nigeria are cases in point. For example, he argues that decentralization can increase interregional disparities because national policies designed to correct disparities will be limited, or decentralization might lead to the underprovision of fiscally induced stabilization policies.

Further, empirical papers show a link between federalism and poor economic performance—Wibbles (2000), Treisman (2000)—stressing the collective action problems and/or veto player policy stability effect that federalism may engender in implementing macroeconomic policies that are viewed as [national] public goods. The collective action problem (especially in the developing world context) emphasizes that since federalism increases the number of veto players in a political system, it also intensifies the divergence of interests and the potential inability to implement economic adjustment policies.

Similarly, Davoodi and Zou (1997) examine the effects of fiscal decentralization on growth. They measure fiscal decentralization as spending by subnational governments as a fraction of total government spending. They separate their full sample of 46 countries over the 1970-1989 period into developing and developed countries and find a negative relationship between fiscal decentralization and economic growth in the world (full sample) and developing country samples while the developed country sample shows a positive, but not significant, effect. One of the explanations they provide for the negative effect of fiscal decentralization on growth in developing countries is in accord with what we will see has developed in Nigeria: “efficiency gains from fiscal decentralization, the strongest argument in its favor, may not materialize for developing countries since revenue collection and expenditure decisions by local governments may still be constrained by the central government. Therefore, the measure may not reflect subnational government’s autonomy in expenditure decision-making. Subnational governments that act as administrative agents of national governments do not necessarily reflect true expenditure decentralization (254-55).” Hence, if the system is de facto centralized, the potential efficiency gains will not be realized.

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2 In the words of Prud’homme (1995: 201): “Decentralization measures are like some potent drugs...when prescribed for the relevant illness, at the appropriate moment and in the correct dose, they can have the desired salutary effect; but in the wrong circumstances, they can harm rather than heal.”

3 Oates (1972) recognized this problem and stated that central government is in a better position to carry out the function of stabilization. If stabilization was left up to the decentralized units, there would be an incentive to increase the money supply to finance expenditures rather than through taxation. Thus, there would be a likely propensity toward inflation (4-6).
Thus, there is an emerging literature indicating that the success of federalism is conditioned on the underlying (institutional) incentive structure. For example, the role of electoral externalities has been shown empirically to breed vertical cooperation between national and local level politicians (Rodden 2001). More relevant to the Nigerian case, literature has established that without “meaningful accountability… the decentralizing resources to local governments may simply lead to “local capture” – or in stark terms, corruption (Rodden, Eskelan, Litvack 2001: 6).” Rodden et al. explore factors that influence budget constraints, recognizing that one way of increasing accountability is the role that subnational hard budget constraints can play in breeding fiscal prudence.

This paper is in accord with the literature on how fiscal structure affects the successful operation of fiscal federalism. The point of departure is that transfer dependence undermined efforts at fiscal efficiency in Nigeria. Further, the dependence on transfers is a byproduct of the dominance of oil in the Nigerian economy beginning in the 1970’s. The states that are the highest recipients of transfers (oil rents) have experienced increased income inequality and display poor economic indicators, suggesting that there is little “meaningful accountability,” while oil-producing states have also displayed poor social and economic indicators due to inadequate transfer system. Surprisingly, states that have benefited the least from oil rents have fared much better. It is also worth noting that despite earning over $200 billion in the last twenty-five years from oil windfalls, the per capita income in Nigeria today is around the same level as it was in 1970.

In line with the reasoning put forth here, Rodden and Wibbels (2001), attempt to explain the variations in economic performance of countries typically categorized as federal. They hypothesize that federalism’s effect on economic outcomes are conditioned by the strength of party systems, the degree to which countries are decentralized fiscally and the actual revenue autonomy of subnational units. They find in their sample of fifteen countries (including Nigeria) for the period 1978-1996, that deficit and inflation rates were conditioned by the underlying fiscal and party structure. In particular, they find that fiscal decentralization has a negative relationship with inflation and deficits, and this is strengthened when state governments have higher levels of revenue autonomy. When dependent on transfers, deficits and inflation increase and this effect is reinforced the more a country is fiscally decentralized.

The theoretical reason why vertical fiscal imbalance (transfer dependence) might distort economic performance is that internal revenue and grants are viewed differently: “intergovernmental grants alter perceptions and beliefs about the levels of local expenditure that can be maintained (Rodden Wibbels
2001: 12).” Accordingly, Rodden et al. (2001) discuss the necessity of hard budget constraints for the facilitation of fiscal decentralization’s positive benefits. As such, the fiscal structure between national and subnational units (as well as the horizontal allocation of revenue) should be taken seriously.

Therefore, the fiscal federalism literature suggests that decentralization’s beneficial impact on the public sector stems from autonomy at the local level generating regional competition among jurisdictions to supply the most efficient policies for their respective constituencies. However, the potential efficiency gains hinge on true local autonomy and vertical accountability. In the following sections, we will show how the discovery and subsequent dependence of oil and military rule precluded the autonomous and accountable structure necessary for gains to be realized.

II. Evolution of Federalism in Nigeria

Olomola (1999) states that the “operations of Nigeria’s fiscal system have been at variance with the spirit and dictates of the federal constitution over the years (482).” Two of the main areas he identifies in Nigeria’s fiscal operations as deviations from constitutionally stipulated provisions will be discussed and expanded here, as they have undermined the smooth, effective, and efficiency enhancing benefits that fiscal federalism could have provided to ethnic and resource heterogeneous Nigeria. The two topics discussed here are the centralization of control over the nation’s wealth, which has led to transfer dependence and instability of revenue allocation. We add a section that exposes the Northern regions as the most dependent on transfers as they are the primary recipients of federally collected revenue. Before continuing to each of these topics, we add that all of the above were reinforced strongly by and perhaps a direct result of growing oil dependence. Therefore, we add an intermediate section that demonstrates Nigeria’s dependence on oil, especially after the early 1970s. Furthermore, the centrality of wealth coupled with disproportionate transfers to the North and the instability of revenue allocation formulas resulted in uncorrected and persistent regional disparities, especially between the northern region and the rest of the country and led to higher income inequality. These disparities will be discussed in the subsequent section.

Centralized control of resources

One revealing indicator of the degree of Nigeria’s fiscal centralization is the types of taxes within the jurisdiction of different levels of government and the corresponding rights to revenue from each type of tax. Table 1 below shows that the federal government has jurisdiction and rights over several important sources of revenue such as import duties, excise taxes, mining rents, and petroleum profit taxes. In contrast, the types of taxes that fall to the state and local levels are ones that are relatively harder to
collect—i.e. market and trading license and fees. Thus, based on tax jurisdiction and right to revenue, the concentration of power is at the federal level.

Insert Table 1

The table above reflects 1999 regulations. Olomola (1999) provides data on Nigeria’s tax system for almost a decade earlier, in 1990, which also indicates that the federal government had power over the significant sources of tax revenue in the country (484). In addition, his data for 1993-1996 also display this concentration of wealth as the percentage of total revenue collected by the federal government was above 94% for all four years. He concludes by emphasizing the [negative] significance of Nigeria’s fiscal power structure and a call to devolve power to sub-national units:

The control of legislative and administrative powers by the federal government is not merely in terms of numerical coverage of taxes, but also in terms of revenue-yielding potentials of the taxes concerned. Thus, by retaining enormous powers for revenue generation, the federal government has laid a solid basis for receiving a large allocation out of the federation revenue. Therefore, any modification in the pattern of revenue distribution in the country to ensure balanced development across the tiers of government should begin from power and responsibility restructuring within the fiscal system. (485)

As a result of the concentration of revenue rights and jurisdiction at the national level, subnational governments have become dependent on national transfers for their expenditures. Indeed, data points to a high dependency on statutory allocations from the federal to the state level. Data on federal, state, and local government revenue for the years 1993-1997 shows average state dependence (statutory allocation as a share of total state revenues) 73.3%, 58.6%, 56.9%, 46.4% and 53.3 in chronological order. Further, local government dependence is even starker, for the same years, local statutory allocation as a share of total revenue was 92.2%, 90.7%, 73.25, 69.2%, and 64.7%. Olomola (1997) discusses that the apparent reduction of state dependence reflects an increasing share of states in value added tax (VAT) revenues and should therefore not be mistaken for any increased state power or responsibility (485).

One consequence of this dependence of revenue transfers by the federal government is “that the execution of local projects followed a declining trend. Between 1993 and 1996, projects at the state level were affected by the inadequacies inherent in the revenue collection process of the federal government. [4]

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4 We leave out the two other areas Oloma discusses, unequal distribution of federal revenue and imbalances in federal finance.
5 This table is not reproduced here but is available upon request. There is also data from 1980 onward, which reveals consistently high levels of dependence, for example 75.7% in 1980 and 86.1% in 1989, again available upon request.
Such inadequacies are evident in delays in the release of statutory allocations, leading to instability of some states to pay workers' salaries as at when due (Olomola 1997: 486-7).

Further, Table 2’s 1997 figures reinforce the dependence of state and local governments on transfers. State and local governments receive, respectively, 53.25% and 64.9% of their revenue from the federation account. Moreover, the table exposes that the federal level receives all oil revenue, which in turn comprises over 70% of total federal revenue. Further, since oil as a percentage of total revenue has consistently been above 50% of total revenue (with a high of 86% in 1992) it is clear that the economy (and federal government) is oil dependent. In turn, this oil revenue is concentrated in national hands— which the states are then dependent on. (See table 3) Hence, the economic dependence on oil and the centralization of wealth has bred a transfer dependent system where states fiscal autonomy is severely limited. Before we turn to the issue of how revenue is transferred from the federal government to the states and then shared among states, we will take a closer look at the growth of oil in Nigeria’s economy over time.

Insert Table 2

“The economic performance is the overriding rationale for Nigerian federalism, but unlike many federal economies, the Nigerian economy almost entirely dependent on the extraction and export of crude petroleum products. According to Onsode (1998-1999), revenue from the oil sector is the primary engine for national economic growth and development (Okoh and Egbon 1999: 406).”

In this section, we will briefly establish the growing oil dependence of the Nigerian economy of oil from the 1970s onward. Since the 1970s, “governments legislation and concessions to various oil prospecting companies set the state for large-scale expansion in exploration and production activities (Okoh and Egbon 1999: 406).”

The early 1970s rise in oil exploration and development is indicated below in Table 3. While the percentage of oil revenue to total revenue comprised a modest 26% in 1970, this figure quickly grew to 82% in 1974. The ascendancy of oil as the major source of revenue persisted through the following two decades. The percentage of oil revenue to total for 1993-1996 was 84%, 79%, 53% and 51%.

Insert Table 3

As mentioned before, this oil domination has been coupled with its revenue concentration at the national level: “from 1970 till date, the federal government maintained absolute ownership of the minerals and their proceeds (Okoh and Egbon 1999: 406).” Further, statutory allocation of oil revenue predominantly goes to the non-oil producing states (an average of only 13% since the 1990s has been appropriated to states that produce oil (Okoh and Egbon 1999: 406). This indicates that the role of oil as
the facilitator of centralization of wealth and state transfer dependence has implications for regional disparities and should be taken very seriously. We now turn to the principles used by the federal government to transfer the revenue it collects.

**Instability of revenue allocation formula**

The next area where the functioning of the country’s fiscal federalism reveals distortions is the instability of revenue allocation criteria. This is important because how the government chooses to distribute (or redistribute) wealth has important implications for the development of the country. In the following section what we will see is not only that the federal government receives a majority of oil revenue and redistributes to areas of non-origin so that revenue is redistributed from the oil producing southern region to the north, but in this section we will see that these formulas for redistribution have been constantly changing, which has its own implications. As Olomola (1999) notes, incessant review of revenue allocation criteria and the subsequent changes instituted display dissatisfaction with the wealth distribution and have important consequences for development and stability (488).

It is important to note, as Olomola (1999) discusses, that the 1987-1997 data reveals a “shortfall of revenue that is expected to be transferred by the federal government to the federation account for distribution by the three tiers of government (487).” The shortfall is defined as the expected share to be transferred relative to the actual amount received. The difference between the two figures, for example in 1996, resulted in a 65.2% shortfall (488). These shortfalls undermine the proper functioning of the system.

Simultaneous to revenue shortfalls, there have been constant changes in the basis for which to distribute this revenue. Table 6 disaggregates Nigeria’s federal evolution into eleven periods, delineating the different fiscal commissions that have been appointed to recommend principles of revenue allocation. From Table 6, we can see that in 1947/1948, before independence (1960) and while the country was characterized as unitary, the accepted principles for revenue allocation were on the basis of derivation and even progress by the Sir Sydney Phillipson and S.O. Adebo Commission. Following was the movement to quasi-federalism and the Hicks-Phillipson Commission with allocation based on derivation, need, and national interest. The third disaggregation (1954-1958) was a federal system under the Sir Louis Chick Commission with the accepted principle as derivation and fiscal independence, followed by the Raisam Commission in 1959/1960. “Up to 1958 (when Raisman Commission recommendation was in use), derivation was the most important principle for revenue sharing... At that time, oil had not gained a central place in the Nigerian economy. The main sources of revenue and engine of growth for the Nigerian economy were agricultural cash crops. These principles were maintained all through the first decade of the post-colonial era (Okoh and Egbon 1999: 409).”
The table shows the post-independence Binn Commission (1964-1967) as allocating 30% to the East, 42% to the North, 8% to the Midwest and 20% to the West. The subsequent Dina Commission in 1968 based its allocation on 50% allocation of states and 50% based on population. “The beginning of indigenous legislation (Decree No 13, 1970) ushered in new principles: population, equality of states and the decline of the importance of derivation as oil revenue became more significant...other principles gained ascendancy...relinquishing derivation to the background (Okoh and Egbon 1999: 409).” Before continuing with a fuller discussion of the post 1970 incessant changes, as provided by Olomola, it is important to turn to Table 4 (below) to note the inclusion of local governments in 1976 as well as the constantly increasing number of states, from six in 1967 to ten in 1987-1990 and to thirty-seven in 1996.

In 1977, a government commission known as the Ayebode commission was instructed to base their revenue allocation formula on “adequate revenue for each government to discharge its responsibilities, equality of status among states, population, derivation, geographical peculiarities, even development and national interest (Olomola 1999: 489).” The recommended vertical allocation by the Commission, as shown in the table, was 57% to the federal government, 30% to the state joint account, 10% to the local government, and 3% to a special grants account. However, the federal government slashed the special grants account and increased their share to 60% (489). Horizontal allocation was 35% equality of access to development opportunities, 22% to national minimum standards for national integration, 20% absorptive capacity, 18% independent revenue and minimum tax effort and 15% fiscal efficiency.

The following Commission's recommendations, headed by Dr. Okigbo, were deemed invalid by the Supreme Court in 1981 (489). Hence, the Federal Government Revenue Act of 1981/1982 was implemented. These allocations called for vertical division as follows: 55:35:10 for the federal, state and local governments, respectively. Horizontal allocations were to be shared among states according to minimum responsibility of government, equality of states, population, social development, internal revenue effort, derivation, and ecology.

In 1988/89, vertical allocation was recommended as 47% to the federal government (later changed by the federal government to 50%), 30% to the state, 15% to the local, 8% to special funds (changed by the federal government to 5%), 1% to special funds, and so on. Horizontal allocation was to be distributed as 40% equality of states, 30% by population, 10% as social development factor, and 20% based on land mass and terrain and internal revenue effort.

6 Military rule was followed soon after independence from the period 1966-1979 with a second period from 1984-1999.
Since 1999, the current formula is 56% to the federal government (48.5 to federal government and the remainder after allocations of 24% to state governments and 20% to local governments). Hence, the federal government still receives a majority of federally collected revenue and state fiscal autonomy has not been enhanced. Moreover, the states that generate oil wealth are left with inadequate resources: “The percentage allocated to derivation remain at 1% oil revenue in 1999 despite the government’s promises to develop the area shortly after assumption of office as Nigeria’s head of state in 1998 (Okoh and Egbon 1999: 414).” In addition, the increase in the number of states has not been matched with financial/fiscal power and autonomy at the local level. Therefore, in the words of Olomola (1999), “It is clear from the foregoing that the issue of revenue allocation in the country has been characterized with changing criteria, controversies and conflicts. The authoritarian role of the federal government (especially military regimes) in establishing fiscal jurisdiction continues unabated (490).” In other words, the federal government receives a bulk of the revenue, indicating a lack of local fiscal power and autonomy. Moreover, unstable rules governing the way revenues are allocated have undermined fiscal federalism.

III. Regional comparison of transfer dependence

As discussed in a previous section, the concentration of power over revenue allocation has resulted in increased dependence of states on statutory allocations. In this section, the first section that deals with disparities, we will show how this dependence varies across state and regions, especially highlighting that the northern region receives the highest amount of transfers.

First, it is instructive to examine statutory allocations according to region for the periods between 1977-1996 (Table 8). It is clear that the North has consistently received the highest percentage of revenues. This indicates that revenue is primarily not allocated according to derivation as oil revenue (the highest percentage of total federally collected revenue, see table 3) is generated in the Eastern region. Table 9 disaggregates the percentagedistribution of revenue according to states and further supports the evidence just discussed.

“Consequently, since many federal policy makers come from states that have low internal revenue, the federal tax power has been continually reinforced and the federal revenue allocation formulas have been constantly modified to give strength to equality, population and development needs. The weak fiscal base of states cannot strengthen federalism; it can only activate discontentment and agitation for self-
reliance from the richer states while the poorer ones continue to insist on acquisition of political power at the center (Kaplan 1999: 90).”

Table 10 shows that states ranked highest in their dependency ratios for 1993 (measured by the ratio of statutory allocation over total revenue) Yoke (96.9), Plateau (95.8), Tarawa (95.5), Niger (95), Alameda (94.4), Boron (93.6), and Bache (92) are all in the Northern region and also rank among the lowest in internally generated revenue: 29:14:21:30:25:27:26 (out of 31, respectively). On the other hand, the states with the lowest dependency ratios, Rivers (56.7), Koki (50.8), Delta (54.2), and Lagos (-2.6), with the exception of Koki are all non-northern states and again with the exception of Koki rank highest in internally generated revenue: Delta (4) Koki (28) Lagos (1) and Rivers (2). Thus, there seems to be a higher dependency on statutory allocation in the Northern low income generating region. Additional data on state dependency ratio (from 1988-1995) reveals an ongoing trend of higher dependence among low internal generating revenue Northern states. For example, in 1995, the states with the top five highest dependency ratios were all Northern (Alameda, Borno, Katsina, Niger, and FCT). Niger was also among the top highest in all other years reported as was Katsina and Adamawa (after 1992). Dependency ratios are generally high and the states in the Northern region rank across time as the most dependent.

Further, there is a relationship between low internally generated revenue and dependence, suggesting that states with higher revenues are more self-reliant (as we just saw these are commercial centers like Lagos in the west or oil producers such as Rivers and Delta in the south). Table 12 (derived from Table 11) shows that there is not a strict relationship between high internal generated revenue (note only two out of ten are from the north) and high statutory ranking to state and especially local government allocations. Further, Table 11 shows that amongst states with the top ten highest population density (note only one is from the north), only Lagos and Ondo also make it on the top ten of statutory allocations, indicating that there is only a modest relationship between population density and how much revenue a state receives. The top ten in population density are Lagos (w) 1183, Imo (e) 598, Anambra (e) 393, Abia (e) 340, Enugu (e) 252, Kano (n) 256, Ondo (w) 251, Osun (w) 251, Katsina (n) 195, Ogun (w) 179.

To further examine what determines the allocation of revenue to local and state governments, we conducted a correlation analysis. Table 13 reveals the highest correlations for state statutory allocations are population density, population, and land mass. Therefore allocations are not derivation-based as

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7 Data taken from Fiscal Federalism and Nigeria’s Economic Development.
suggested by the low correlation between internal revenue and state statutory allocation. For federal government and local government allocations, the highest indicator seems to be the number of local governments.

Insert Table 13

Thus, this section establishes that the dependence on transfers is higher in the north and that there is a lack of correlation between internally generated revenue and statutory allocations. These points suggest that significant redistribution of wealth occurs between the oil producing, high revenue generating states and the less population-dense, low-income north. We now turn to the effects that this form of dependency and discretionary transfer system has had on regional disparities.

Regional Disparities

As we have established, although the whole system is centralized and transfer dependent, the North receives the most transfers. How has the North fared? We begin by examining cross-regional data and then we examine three regions more closely. This section needs to be prefaced by stating that apart from the widely known significant ethnic heterogeneity, Nigeria’s regions are marked by differences in agriculture and resource endowments (see Tables 15 and 18 in the appendix) and it is recognized that the North is relatively underdeveloped. Data on school enrollment, electricity supply and communication indicates that the North’s underdevelopment has persisted—despite receiving the most transfers. This underscores the relationship between transfer dependence and incessant disparities. We now examine some of the data.

Ebenezer O. Aka, Jr. (2000) provides data on states’ relative shares in domestic energy consumption for the years 1976-1981 (181). The average for 1976 was 5.26 percent and those with shares under 1 percent were all northern states while among the highest shares there was only one northern state: Bendel in the west, Kano in the north, and Lagos in the west. The same trend appeared five years later in 1981 with the highest shares belonging to Lagos, Oyo, and Bendel (all western states) while the lowest shares all appeared in the northern states of Niger, Gongola and Bauchi. Current data on electricity supply indicate that the disparity in energy consumption between the northern and southern regions (note the south contains western and eastern states) has persisted. From 1970 onward, the top seven states with electricity supply in Nigeria in order are Lagos (95%), Oyo (77.5%), Anambra (76.8%), FCT (70.5%), Osun (69.7%), Ondo (69.3%) and Kwara (67.3%). These are all southern states apart from FCT. And the seven with the lowest electricity supply are mostly northern states whom paradoxically have the highest statutory
allocation: Yobe (18.6%), Bauchi (16.9%), Benue (16.1%), Sokoto (13.5%), Katsina (12.5%), Jigawa (11.1%) and Kebbi (11.5%).

Further, Aka (2000) provides data on primary enrollment by state for the years 1975/76, 1976/77, 1977/78, 1978/79, 1979/80 (170). For the sake of brevity, we discuss here the first and last group of years. In 1975/76 Imo, Bendel, Anabra, Cross River and Oyo, all located in the south (east and west regions) had the highest enrollment rates. While the northern states of Niger, Plateau, and Soot had the lowest rates. The years 1979/80 provide a similar picture as three out of five states with the highest primary enrollment were in the east and west while the northern states again had the lowest numbers. Looking at data that is more current, we see that these disparities between the north and the south have persisted. The highest in primary school enrollment are western Osun (97.2%), eastern Imo (96.7%), eastern Anambra (95.9%) and midwestern Edo (95.5%). While the lowest are all northern states: Yobe, Sokoto and Bauchi. The highest enrollment in secondary education is midwestern Delta with (95.8%), followed by western Ondo (95.4%), eastern Edo with (94.6%), and eastern Imo (94%). The lowest once again are northern Yobe (14.5%) and Sokoto (19.3%).

Although the indicators are rough proxies for development levels, they do suggest the evident disparities between the north and the south that have been uncorrected by transfers that were meant to rectify the inequalities. Further, Table 14 below shows education data for 1997 and 1998. The table lists the top ten states in enrollment at different levels of education and reveals that the northern regions fare poorly in nearly all measures. Especially when we move beyond the primary enrollment indicator and look at secondary enrollment, there is not a single northern state on the list. College and university indicators, broken down by sex, also indicate that the north lags behind in education levels. The table appears below with the northern states highlighted.

Insert Table 14

Another indicator is communication disparities. Table 15 shows that the five states with the lowest number of post boxes (in 1998) are in the North, indicating unfavorable interregional disparities in communications, again despite the northern region's status as the highest transfer recipient.

Insert Table 15

Finally, data on the percentage of labor force involved in agricultural activity show that the highest shares occur in the northern states: Benue (82.6), Adamawa (70.1), Bauchi (77.9), Borno (65.5), Taraba
(76.7), Yobe (71.8), Jigawa (75.7), Katsina (73.6) and Kebbi (81.3). While the lowest shares in agriculture occur in the west: Lagos (2.2), Oyo (19.9) and Osun (21.1). This shows that the regions outside of the north are more industrialized.

All of the above indicates that the original economic disparities were not corrected. Interstate disparities that transfers were meant to correct have not declined, suggesting that transfers are captured or given to elites. In other words, to reinforce the theme throughout the paper, centralized power, supported by oil dependence, has reinforced disparities and arguably increased intrastate disparities.

Data on disparities between states that examine the percentage of poverty incidence in each state is very revealing. Not only do the northern states exhibit higher incidences of poverty in each time period, (we have highlighted northern states)—for example in 1980 the highest rates were in northern Adamwa/Taraba (33.4), Kaduna/Katsina (44.7), Kano/Jigwa (37.5), Kwarai/ Kogi (33.3), and Plateau (49.5) or in 1992 northern Bauchi (68.8), Borno/Yobe (49.7), Imo/Abia (49.9), Kwarai/Kogi (60.8) and Plateau (50.2). But the other startling feature of this data is that across time all states (and thus regions) have experienced a higher incidence of poverty. Overall poverty incidence has risen by 37.5% (from 28.1% in 1980 to 65.6% in 1996). And for some states, for example northern Sokoto/Kebbi, the increase between 1980 and 1996 is 58.2%, for Oyo/Osun in the west the increase was 50.9% and for southern Cross River/Akwaibom it was 56.7%. This suggests that overall inequality has risen.

Table 16 is also very telling and reveals more about interregional disparities. Rivers, CrossRiver and Akwaibom—three oil rich regions which rank among the top ten in income generation, rate high among indicators of poor development. For example, Rivers ranks among top ten in early marriage. Akwaibom ranks among the top in poor sources of water. Cross River ranks among the top five in poor sources of water, top ten in early marriage and top five in high mortality. Thenon-oil producing states, who also rank among the top ten in internally generated revenue, by contrast, for example the commercial center of Lagos or Anambra in the East, show positive indicators of development. This shows that oil producing states (that are not beneficiaries of oil rents) have not benefited from oil revenue while states that do not rely on oil—agriculture or commercial states—are better off.

Insert Table 16

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9 Source NCS80, 85, 92, 95.
This shows that among high revenue generators, oil-producing states have fared worse than agricultural or commercial states. Okeoh and Egbon (1999) discuss the poverty of the Niger Delta (comprised of Delta, Bayelsa, Cross River, Rivers, and Akwaibom) as a result of unfair revenue-sharing formulas and allocations, a theme of this paper: “...the revenue-sharing and allocation machinery which has operated on the basis of states’ population is faulty on two grounds. First, it has failed to allocate adequate resources for the development of the minority oil-producing communities (states) and, second, it has left the oil-producing communities in abject poverty (407).” The importance of Table 16 is that it displays that oil-producing states (which are the main source of wealth in Nigeria) have declined especially relative to non-oil producers that also generated high incomes (i.e. outside the north). Further and paradoxically, the North’s transfers have not helped their development. Therefore, oil dependence and oil rents/transfers have stunted Nigeria’s development. At this point, it is fitting to look at an agricultural state in the North (Kano), an oil producer in the Midwest (Delta) and an agricultural state in the west (Ondo).

IV. Kano, Delta and Ondo: A Comparative Study

Kano State

It is instructive to take a closer look at an agricultural state in the northern region since it is one of the highest recipients of transfers and exhibits low indicators of development, providing evidence for the negative effects of transfer dependence.

Through Kano’s apparent political dominance (a good number of Nigeria’s past/present leaders, either through the military or through civilian governments, were from Kano); it has ensured high allocation to the state over time. As we saw earlier, Kano’s share of statutory allocation to both states and local government is the highest in the country and its’ internal generated revenue is among the lowest as it ranks 19 out of 31 (see Table 17 in appendix). Yet this investment is not converted to economic/human development within the state and high inequality is one of the striking characteristics of this state. It ranked 5th among Nigeria’s 31 states in poverty incidence in 1980 with 37.5%, 6th in 1985 with an increase in poverty incidence to 54% and 6th in 1996 with the incidence of poverty at 71%. In addition, health expenditures were not among the top 10 throughout the 1980s and health indicators in the state were very low. Kano is ranked 4th in terms of number of hospitals/health establishments among the states in the country. However, most of these health establishments are dispensaries created by the local/state
government and are not actual hospitals or medical centers. Further, Kano has few medical practitioners (Kano actually ranks 15th among the states in numbers of medical practitioners).\textsuperscript{11,12} In recent years there has been a rapid increase in the northern states in at least primary education (see table 16). In 1998 Kano ranked highest in primary school enrollment but is still lagging in secondary and tertiary education. The literacy level before the states were split in 1991 was ranked 15th in the urban areas and 14th in the rural areas (out of 19 states).

Over 75 percent of Kano's population is employed in the agricultural sector while 15 percent are in sales and 11 percent are in production work. Malnutrition and hunger are prevalent due to the short raining season, low technology in preserving farm produce, inadequate access to fertilizers/improved seed varieties/pesticides and limited access to labor-saving farm and food processing implements.\textsuperscript{13} Research by UNDP shows approximately 80 percent of householders here are food insecure. Forty-six percent of these were temporarily food insecure households, while 34 percent suffered from chronic food insecurity.

**Delta State**

We now turn to oil producing Delta in the south, which is an interesting representative of states that fare better on development terms relative to their northern counterparts, although significant portions of its oil wealth are transferred away.

Delta state, which was a part of Bendel until 1991, plays an important role in Nigeria since the discovery of oil in the state in the 1950's. Prior to oil growth, Bendel was basically agricultural, producing palm, plantain etc. In terms of other socio-economic indicators 44% of Delta's labor force is involved in agriculture, 23% are involved in sales and 13% of the labor force is involved in production. Hence, it can still be considered an agricultural state.

Reviewing some of the indicators, Delta ranks 2\textsuperscript{nd} in the country in terms of revenue generation but statutory allocation to the state is 4\textsuperscript{th} while statutory allocation to the local government is not even among the top ten within the country despite its revenue generation.\textsuperscript{14} Hence, Delta exhibits a low dependency ratio to statutory allocation (its rank is third).\textsuperscript{15} This reflects the inadequate resources and revenue for Delta, as much of its oil wealth is transferred.

\textsuperscript{10} Report compiled in f.o.s office by Ruth Uwaifo June 2001
\textsuperscript{11} Breakdown of states before September 1991 used (22)
\textsuperscript{12} source: Federal Ministry of health Abuja
\textsuperscript{13} see website for full info http://www.undp.org/tcad/bestprac/agri/cases/nigeria.htm
\textsuperscript{14} See table 6. Due to this disparity in contribution and allocation there has been continual unrest in this region of the country protesting the marginalization of the state/region.
\textsuperscript{15} see table 10 and 11
Delta’ economic indicators show mixed results—some show positive signs of development while others show signs of underdevelopment. Despite being a top revenue generator, it is not among the top five states in goods sources of water and it is among the top 10 in early marriages. Yet some positive indicators are that it is among the top 5 in adult literacy and small family sizes. Further, it is characterized by high enrollment both in secondary and tertiary education (see table 16). Additionally, Delta ranked 2nd in both urban and rural literacy and health expenditure were among the top 10 in the country. It ranks 5th in health establishments it has over 40 more hospitals than Kano and is ranked 4th in number of medical practitioners among the states. In terms of poverty incidence it was about 33.9% in 1992 and 56.1% in 1996 and ranked 6th among the states with lowest levels of poverty incidence. The low level of poverty incidence compared to states like Kano (even with its lower levels of statutory allocation) is linked to its high level of literacy and low inequality compared to Kano.

Taking a look at the industrial breakdown of Bendel (present Delta and Edo) state along the same lines as Kano (see table 14), we notice that Delta State contains a high percentage of total industries in Nigeria. This further buttresses its high internally generated revenue apart from oil. Unlike in the case of Kano where most of this industries are owned by sole enterprises more industries in Delta state are mainly public enterprises.

**OndoState**

Finally, we consider Ondo, a South western state in Nigeria which is mainly involved in agriculture. A study of Ondo is particularly interesting because of its combination of relatively good economic indicators and its relative independence from oil generation (although there has been discovery of oil, it has been in small quantities) and oil rents (its low dependency ratio will soon be noted).

Reviewing indicators for the state, it has the 8th highest population density in the country. Its ranking in internally generated revenue is relatively low at 17th; yet was ranked 8th in low dependency ratio, 6th in statutory allocation to the state and 21st in statutory allocation to the local governments in the 1990s (Tables 18). The reason for its low dependency ratio is due to its weak political influence relative to the northern states.

One of the striking characteristics of the state is the educational incline, which has generally been a prominent trend among the western states. Ondo has one of the highest secondary school and college of education (for training teachers) enrollments (see table 16). Ondo also ranks 12th highest in urban literacy.

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16 see table 12
17 Nigeria’s statistical bulletin form the 80s
18 source NCS (National center for statistics) year 1990, 1995
and 6th in rural literacy.\textsuperscript{19} Further, Ondo’s state expenditure on health ranked among the top 10 states in Nigeria. As such, Ondo had the 2nd largest number of health establishments with a large number of hospitals and a significant proportion of its health personnel comprised of medical practitioners and dentists.\textsuperscript{20} Yet ironically it had the 10th highest unemployment rate in the 1990s.\textsuperscript{21}

In terms of socio economic indicators it has 34.7% of its labor force in agriculture, which is much lower than Kano and Delta because of its educational inclination, which is reflected in the higher proportion of Ondo’s labor force involved in teaching sales and production—labor force in sales is 27.2% and 19% in production.\textsuperscript{22} Ondo state is not prominent in industrial activity (see Table 17 for ranking). The only significant industrial classification is wood and furniture because of its terrain/vegetation. Similar to Delta, because of the existence of oil in its coastal areas, Ondo has increased prominence and in recent times there have been issues of marginalization of the state and incessant riots and clashes have been the result.\textsuperscript{23}

V. Reforms

We now discuss economic and political reforms enacted by the current government to solve some of the problems of fiscal federalism and regional disparities in Nigeria. Indeed, since the swearing in of the first democratically elected government after over 16 years of military rule in 1999 the fiscal policy thrust of the new government has been designed to achieve the following objectives: (1) enhance capacity utilization in agriculture, manufacturing and mining industries, (2) provide appropriate protection for domestic industries against unfair competition from imports and dumping, (3) encourage diversification of foreign exchange earnings through increased export activities, (4) reduce operating costs and inflationary pressures; and (5) provide appropriate incentives for investment in manufacturing, agriculture and mining.

More importantly have been the issues arising in line with fiscal reforms and the demand for true federalism as was agreed upon when Nigeria was created.

\textbf{Revenue Allocation Formula}

The different Midwest and sought south communities are complaining bitterly on the present revenue sharing formula and the deliberate annihilation of the derivation principle of the Revenue Allocation Formula enacted by the Federal Republic of Nigeria from 100% in 1953; 50% in 1960; 45% in 1970; 20% in 1975;

\begin{itemize}
  \item \textsuperscript{19} source FOS bulletin
  \item \textsuperscript{20} Federal Annual statistics
  \item \textsuperscript{21} This has been explained in studies on the relationship between increased education in Nigeria, urbanization, unemployment and lack of human capital formation
  \item \textsuperscript{22} source bullion publication of central bank Nigeria 2000
  \item \textsuperscript{23} http://www.waado.org/Environment/OilSpills/NigerDelta/Ilaje.html
\end{itemize}
25% in 1982; 1.55% in 1984; 3% in 1992; to 13% in 2000. Recently 17 states have sued the federal government demanding reforms in the revenue sharing formula. In the current system, the federal government takes 48%, the states, 24% and local governments 20%. The states are demanding 45% for themselves, 25% for the local governments and 30% for the federal government. Fiscal reforms to increase tax revenues to state and local governments and reduce dependence on oil revenues are also in the pipeline: (a) deregulation of domestic petroleum prices, (b) Broadening of the coverage of the Value Added Tax and enhancement of compliance and an attempt to increase allocation of VAT to states and local government, (c) reintroduction of an excise duty on tobacco, (d) Improvement of customs administration, (e) Cut back in federal government capital outlay, (f) containment of the wage bill, (g) Reduced total tax burden to a maximum of 30 percent of corporate and personal incomes as soon as possible, (h) Low customs tariff, especially for production inputs (at less than 10 per cent, with built-in incentives for local producers).

Administrative and Political Reforms

Purging the federal administration and judiciary of political appointees of the former military dictators and enacting anti-corruption measures. In 2000 the anticorruption bill was passed to address the heavy level of corruption among government officials, which was a carry over from the military rule. The bill seeks to prohibit and prescribe punishment for corrupt practices and other related offences. It establishes an Independent Corrupt Practices and Other Related Offences Commission vesting it with the responsibility for investigation and prosecution of offenders thereof. 24

The government has been making some effort to promote separation of power and horizontal accountability between the executive and the legislative branches of government. Some steps have taken to depoliticize the bureaucracy.

In 1999 a new constitution was adopted in Nigeria but most states are still demanding a sovereign national conference and another constitution agreed upon by the states. Based on these current conflicts a key issue being addressed is the jurisdiction of a national conference vis-à-vis the demand for constitutional changes that will reflect a balanced federal system. The demand for the conference is to afford Nigeria’s federating units an opportunity to negotiate and agree on areas of federal-state jurisdictions in a renewed Nigerian federal polity. In short, the federating units, as the creators of the federal polity, will have to agree

24 Source: Federal government explanatory memorandum 2000
on how much power they would respectively like to assign to the federal government. Presently there is on going review of the 1999 constitution.

As a result of the prolonged tension in the Niger delta region of Nigeria the Niger delta development commission act 2000 was launched to address the grievances of the oil producing areas. A declaration of the Niger delta bill of rights is currently under preparation.25

VI. Concluding Remarks

There is a growing empirical literature suggesting the existence of a negative and robust correlation between natural resource wealth and authoritarian governments. It is argued that an abundance of natural resources rents causes an increased competition for control of the state, which is linked to high levels of violent political conflicts and the use of resource rents by the ruling party to maintain their hold on political power.

The rentier authoritarianism hypothesis is particularly valid in the context of Nigeria. The evidence suggests that Nigerian governments became increasingly centralized and authoritarian as the country became more dependent on oil revenues. This evolution was greatly facilitated by decree No. 13 of 1970, which reduced mining rents and royalties to oil producing states, and decree no. 9 of 1975, which transferred all mining rents and royalties from the states of origin to the federal government and by the 1989 constitution amendment that provided a greater discretionary power to the federal government in the process of revenue allocation.26

The results presented in this paper complements earlier analysis on rentier states by documenting the way in which centralization and politicization of the process of revenue allocation generated not only financially dependent states, but also increased regional disparities and income inequalities especially in the northern states which are the main beneficiaries of federal transfers. The results indicate that true fiscal federalism is incompatible with authoritarianism and that major democratic and institutional reforms are necessary to generate a growth enhancing and equitable federal system.

26 It states: “the federal government may make grants to a state or a local government to supplement the revenue of that state or local government in such a sum and subject to such terms and conditions as may be prescribed by the National Assembly” (section 162(1)) (from Yekini 1992: 49).
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