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An assessment of components of revenue of state governments in Nigeria

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Abstract

The paper assesses the various components of revenue accrued to State governments in Nigeria between 1997 and 2017. Annual secondary data from Central Bank of Nigeria (CBN) Statistical bulletin and Nigeria Bureau of Statistics (NBS) were used. The results of the study showed that the revenue share of the States from the Federation Account was 53%, which was above the average of the total revenue accruals to the States. This was followed by IGR with a distant 18% of the total revenue. The study concluded that this tier of government has low level of independent revenue-raising capacity to meet the ever-increasing expenditure needs.

Keywords: Federation Account, Statutory Allocation, IGR, State Governments, VAT, Revenue

1. Introduction

In the 1970s, Nigeria's earnings were primarily from the agricultural sector (Balogun, 2015) [5]. The then four regions in the country (North, East, West and the Mid-West) were giants in exporting agricultural products as they were known for their expertise in the production of the products. For instance, groundnuts, cotton, hides and skin were peculiar to the North; the East was known for its palm produce and coal; the West for its Cocoa and the Mid-West for its rubber and timber. The revenues generated from these resources were made use of to develop the areas and certain proportion was being remitted to the Federal Government's coffer as well. However, the boom preceding the 1978 fiscal crisis made all the tiers of government resort to extensive borrowing to finance developmental projects. Thus, IGR was abandoned in preference to the share of public revenue from the Federation Accounts as a significant means of financing local and state governments.

The first twelve States were created from the existing four regions by the Federal government of Nigeria with the motive of protecting the country against the severe pressures from the then regional governments of the first Republic (Adedeji and Rowlands, 1999) [1]. Subsequently, there were other motives for State creation as the number of States in the country rose from 12 to 19; to 21; to 30 and then to 36 plus the Federal Capital Territory as it is currently **(**see Appendices II &III). More worrisome are the effects of these government actions as economic implications are usually considered afterthought long after the political quest for this has been satisfied; at which time, it is mostly too late to effect any economic meaningful changes (Deloitte, 2016) [9]. In fact, the agitations for equity in the revenue sharing and access to the Federation Account on several occasions lead to the creation of States that do not have the financial capacity to promote autonomous fiscal survival. This has indeed attracted a lot of attentions and criticisms in the literature as many States in Nigeria today hardly move to increase IGR outside oil accruals.

Despite the above, the agitation towards increasing the relevance of States has significantly heightened since the country's return to civilian administration in 1999. Adedeji and Rowlands (1999) [1] asserted that Obasanjo's regime inherited a moribund economy suffering from stagnation and decadence of most democratic institutions. The oil price rule introduced by this regime enabled the accumulation of "excess crude" savings in addition to the country foreign reserves. The "*Excess Crude Oil Account*" (ECA) starting from nil in 2003 was $140.2bn by December 2005 while foreign reserves were over $42billion totaling over $182billion of sovereign savings (CBN report, 2006) [6]. The author also submitted that the long years of military rule in Nigeria had a devastating effect on the Nigerian economy. Economic planning was haphazard, policies distorted, and implementation processes undermined. And this significantly discouraged foreign investment despite the robust domestic market and the strategic location of the nation that can enhance the nation's improved revenue.

The Federal government, through the Ministry of Finance in 2015, reported that the serious decline in the global oil prices in recent years resulting in dwindling revenue from the sale of crude oil, frequent militants' attacks on the oil pipelines in the Niger Delta and the massive theft of Nigeria's oil to the tune of 400,000 barrels per day since 2013 reduced the accruals to the Federation Account and thus, the shares of the States. Faced with inability to meet their fiscal obligations, most States resorted to cutting social and economic spending, drastic reductions in the cost of governance, owing civil servant several months' emoluments and even salaries for certain categories of workforce and so on (Chukwu and Aneke, 2015) [8]. Some States approached banks and other similar institutions for loans so as to settle salaries arrears and other recurrent expenditure with the hope that the global oil prices would rise and the fiscal crunch would soon be a thing of the past.

The interest to enhance improved revenue accruals to the governments' coffer by the three tiers of government in Nigeria keeps waxing stronger. Some have worked more diligently with varying results while others only paid lip services on the need to work on it. Although there are several sources of revenue (statutory allocations, corporate and individual donations, etc.), IGR is one source which every State is expected to fully utilise to complement others. Commenting on the importance of IGR on economic sustenance, a former Nigerian President, Dr. Goodluck Jonathan, in his speech during the First International Tax Conference held in Abuja on 27th October, 2008 said that:

> *"There is no better time but now for Nigeria to put the issue of diversification of revenue away from oil on the front burner… for a nation to carry out basic functions of government, pursue and implement her development programmes like our "vision 202020" …it requires stable, predictable and sustainable sources of revenue. This leaves us with a very limited choice other than to subscribe to international best practices and make 'IGR' the primary source of revenue of government…this is crucial in view of the fact that the so-called diversification from dependence on oil as the principal source of revenue is applicable to the three tiers of government as State and LGAs should henceforth depend less on revenue from Federation Accounts and intensify their IGR drive"*

Despite the present severe fiscal crunch occassioned by dwindling revenues resulting majorly from the prolonged decline in global oil prices, fiscal challenges of State governments in Nigeria are still surmountable, thus, the study afforded States the opportunity to enhance an improved IGR mobilisation and management.

2. Literature review

The issues of revenue generation are indeed volatile and constitute a source of both economic and political tensions in the world. Hans and Bernd (2014) [10] examined the effects of revenues on macroeconomic variables. It was found out that about half of the analysed economies in the Latin America were faced with an apparent trade-off between growth and volatility of revenues. This implies that the pendulum of revenue fluctuations is indeterminable and it impacts negatively on the sustainability of the economy.

The relationship between government revenue and government expenditure in Nigeria was examined by Obioma and Ozughalu (2010) [16] and the findings of study revealed that government expenditure is heavily influenced by fluctuations in revenue. The volatility in revenue triggered by frequent shifts in the price of oil in the world market affects not only public spending, but also the overall government performance in the economy.

Though, the assignment of own revenue sources to subnational government is a central policy thrust in all fiscally decentralized countries around the world, Nigeria inclusive, there is still no consensus in the public finance literature about the adequacy or otherwise of own revenue at the lower levels of government. The studies of Olusola (2011) [17], Adenugba and Ogechi (2013) [2], Oseni, (2013) [18], NGF (2015) [14] and Nto (2016) [15] revealed minimal contributions of own revenue to government expenditure. The results indicate that growth rates of expenditure are higher than the growth rate of IGR. This implies that as recurrent and capital expenditures increase, States' IGR also increases, but expenditure grows faster than IGR. The argument is predicated on the Keynesian economic theory which states that government must intervene in the economy through increased public spending and lower taxes.

On the other side, the empirical findings of Agya, Ibrahim and Emmanuel (2015) [3], Asimiyu and Kizito (2014) [4], Dang and Dashe (2017) revealed that less efforts are being made to harness the enormous potential of IGR by the State governments in Nigeria possibly because of the huge revenue earnings from oil revenue. The major cause for concern is the inability of the subnational governments to raise, retain and manage IGR in the most effective and efficient ways. The authors' view was in line with the Ability Theory of the Neo-Classical School of Thought. Though, the two sides of the arguments provide useful insights, but they fall short of providing clear guide on enhancing internal revenue generation efforts.

The study is premised on Wiseman and Peacock hypothesis which was put forth by Allan Peacock and Jack Wiseman, in their empirical study of public expenditure in U.K. for the period 1890-1955.The authors emphasized the time pattern of public spending trends. The main emphasis of the hypothesis is that public expenditure does not increase in a smooth and continuous manner, but in jumps and jerks or step like fashion. Their analysis involves three distinct but interwoven elements, and they are: displacement, inspection and concentration effects. Wiseman and Peacock observed that the relative growth of the public sector has followed a discrete step-like pattern rather than a continuous growth pattern.

Sequel to the above, calls and efforts to enhance fiscal viability of Nigerian State governments have been on for many years. With the Nigeria's current fiscal position, improving the IGR is no longer an option among many; it is indeed the only reliable revenue source open to State governments if they are to drastically reduce their fiscal dependence on statutory allocations

3. Methodology

Specifically, percentages were computed for a number of data collected. The study compared the respective contributions of each of the variables with one another. Also, tools such as tables and pie chart were used to present information on the size of the components of States' total revenue in Nigeria over the sample period.

3.1 Model Specification for descriptive analysis

In an attempt to examine the relative size of the components of total revenue of State governments in Nigeria, the following equations were used:

$$PSIGR_j = \frac{TSIGR_j}{TRS_j} \times 100\% \quad (3.1)$$

$$PGRT_j = \frac{TGRT_j}{TRS_j} \times 100\% \quad (3.2)$$

$$PVAT_j = \frac{TVAT_j}{TRS_j} \times 100\% \quad (3.3)$$

$$PSFR_j = \frac{TSFR_j}{TRS_j} \times 100\% \quad (3.4)$$

$$PTSSA_j = \frac{TSSA_j}{TRS_j} \times 100\% \quad (3.5)$$

$$PECA_j = \frac{TECA_j}{TRS_j} \times 100\% \quad (3.6)$$

$$j = 1,2,3, \ldots\ldots.., 21.$$

Where;
$PSIGR_j$ = Proportion of States' internally generated revenue in year j
$TSIGR_j$ = Total Value of States' internally generated revenue in year j
$PGRT_j$ = Proportion of grants offered to States in year j
$TGRT_j$ = Total value of grants offered to States in year j
$PVAT_j$ = Proportion of Value Added Tax from all States in year j
$TVAT_j$ = Total Value Added Tax from all States in year j
$PSFR_j$ = Proportion of Stabilisation Funds Receipts to States in year j
$TSFR_j$ = Total Stabilisation Funds Receipts by States in year j
$PTSSA_j$ = Proportion of Statutory Allocations to States in year j
$TSSA_j$ = Total Statutory Allocations to States in year j
$TECA_j$= Total Excess Crude Account to States in year j
$PECA_j$= Proportion of Excess Crude Account to States in year j
TRS_j = Total Revenue of States in year j

The method of analysis employed is strictly analytical in nature. Tables, pie chart and percentages were used to examine the relative size of the components of total revenue of State Governments in Nigeria.

In order to appraise the revenue structure of State governments in Nigeria within the sampled period, equations (3.1) to (3.6) were used to compute the proportions of IGR, VAT, Grant, Stabilisation Funds Receipts and Statutory Allocations to States in year *j*. The said equations attempted to determine the fiscal capacity of State governments in Nigeria. The relative strength and weakness of each of the components of revenue was brought to bear. This is to reveal which of the components needs more efforts to be exerted upon.

4. Findings and discussion

The findings are divided into sections and each of these sections is presented and analysed according to periods (1997 – 2000; 2001 – 2004; 2005 – 2008; 2009 – 2012; 2013 – 2017). What was done here is a detailed analysis of the results from the equations (3.1 to 3.6). Also, pie chart and line graph are used to substantiate the results analysed in the tables.
According to CBN's Sub-national Governments Annual Fiscal Survey (2017), revenue structure of State government by function is classified to include Statutory Allocations from Federation Account, Internally Generated Revenue (IGR), Grants, Stabilisation Funds Receipts (SFR), Value Added Tax (VAT), fund from Excess Crude Oil Account (ECA)and other sources in form of Ecological Fund, Paris Club Refund etc. In this section, the relative size of each of the revenue components is examined.

Table 1: Revenue Components of State Governments in Nigeria (1997 - 2000)

	1997		1998		1999		2000	
Components of States' Revenue	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total
SSA	50.8	52	66.06	46	103.66	61	251.57	70
VAT	13.91	14	16.2	11	23.75	14	30.64	9
GRANT	4.34	5	31.37	22	6.55	4	33.29	9
SFR	0.45	1	0.24	0.2	0.923	1	5.78	2
IGR	27.458	28	29.75	20.8	34.109	20	37.79	10
ECA	0	0	0	0	0	0	0	0
OTHERS	0	0	0	0	0	0	0	0
Total Revenue	96.96	100	143.202	100	168.99	100	359.07	100

Source: Author's calculations from the data extracted from CBN statistical bulletin and National Bureau of Statistics (several editions)

From the Table 1, the revenue share from the Federation Account to States was slightly above average (i.e., 52%) of the total revenue accruals to States in 1997. This was followed by IGR with a distant 28%, VAT 14%, grant 5% and Stabilisation Fund Receipts by States with just 1%. There was nothing like funds from Excess Crude Oil Account (ECA) and other revenues until 2005 and 2008 respectively. Though, there was a significant increase in the total revenue accruals to States from N96.96 billion in 1997 to N 143.202 billion in 1998, but, statutory allocations declined by 6%, VAT and IGR reduced to 11% and 20.8% respectively. The contribution of SFR declined to 0.2% while grant increased by 17% (i.e., from 5% to 22%). There was a noticeable increase is statutory allocations to 61% in

1999 and 70% in the year 2000. VAT and IGR declined by 5% and 10% while grant and SFR increased to 9% and 2% in the year 2000 respectively.

Table 2: Revenue Components of State Governments in Nigeria (2001 – 2004)

	2001		2002		2003		2004	
Components of States' Revenue	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total
SSA	404.09	71	388.3	58	535.18	62	777.21	70
VAT	44.91	8	52.63	8	65.89	8	96.2	8.9
GRANT	58.07	10	129.71	19	134.18	15.9	104.35	9
SFR	7.06	1	9.57	2	0.99	0.1	2	0.1
IGR	59.42	10	89.606	13	118.766	14	134.18	12
ECA	0	0	0	0	0	0	0	0
OTHERS	0	0	0	0	0	0	0	0
Total Revenue	573.548	100	669.8176	100	854.997	100	1,113.943	100

Source: Author's calculations from the data extracted from CBN statistical bulletin and National Bureau of Statistics (several editions)

Table 2 shows that statutory allocation was 71% of total revenue of State governments in Nigeria. Grant and IGR contributed 10% each, VAT was only 8% and SFR accounted for just 1% in the year 2001. There was drastic reduction in statutory allocations to States by 13% in 2002 despite increase in the total revenue by N96.27 billion while VAT remained 8%. Grant increased to 19%, SFR to 2% and IGR was 3% higher than the previous year figure. In 2003, statutory allocations increased to 62% and maintained the same tempo in 2004 when it jumped up to 70% of the total revenue but VAT recorded a marginal increase from 8% in 2003 to 8.9% in 2004. There was a significant decrease in grants from 15.9% to 9% from 2003 to 2004. IGR declined by 2% in 2004 but SFR maintained its 2003 figure of 0.1%. There was no record of funds from Excess Crude Oil Account and other funds between 2001 and 2004.

Table 3: Revenue Components of State Governments in Nigeria (2005 - 2008)

	2005		2006		2007		2008	
Components of States' Revenue	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total
SSA	920.99	65	1016.08	66	1109.34	54	1709.2	58
VAT	87.45	6	110.57	7	144.38	7	198.1	7
GRANT	137.46	10	125.23	8	209.38	10	179	6
SFR	10.78	1	11.89	1	37.69	2	53.4	2
IGR	122.74	8	125.23	8	305.72	15	353.06	12
ECA	140.23	10	154.77	10	258.9	12	354.1	12
OTHERS	0	0	0	0	0	0	87.27	3
Total Revenue	1,419.638	100	1,543.771	100	2,065.406	100	2,934.135	100

Source: Author's calculations from the data extracted from CBN statistical bulletin and National Bureau of Statistics (several editions)

The year 2005, according to Table 3, witnessed a lump sum of N140.23 billion (10% of the total revenue) distributed to States as funds from Excess Crude Oil Account (ECA). The proportion of statutory allocations in that year was 65%, VAT was 6%, grants, SFR and IGR were 10%, 1% and 8% respectively. The following year, ECA and SFR maintained their previous year proportions of 10% and 1% respectively, IGR and grants were both 8% each, but VAT and statutory allocation were up by just 1% each. The proportions of funds from ECA, IGR, SFR and grants rose to 12%, 15%, 2% and 10% respectively in 2007. However, VAT maintained the same 7% while statutory allocations plunged by 12%. Again, the gain recorded by statutory allocations to States in 2007 continued in the following year. It was up by 4%. VAT and SFR maintained their 2007 proportions in 2008, funds from ECA and IGR were 12% each. The year 2008 also heralded the commencement of the share of funds such as NNPC refund, SURE-P and budget augmentation which contributed 3% of the total revenue of States.

Table 4: Revenue Components of State Governments in Nigeria (2009 - 2012)

	2009		2010		2011		2012	
Components of States' Revenue	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total
SSA	973.8	38	1353.7	50	1786.3	53	1857.03	52
VAT	229.3	9	275.6	10	318	9	347.69	10
GRANT	188	7	224.2	8	88.7	3	95.67	3
SFR	29.7	1	51	2	11.2	0.1	1.25	0.1
IGR	461.24	18	420.454	15	490.38	14	584.4	16
ECA	376.85	14	322.4	12	167	5	143.9	4
OTHERS	331.78	13	92.1	3	548.53	15.9	549.31	14.9
Total Revenue	2,590.673	100	2,739.445	100	3,410.107	100	3,579.252	100

Source: Author's calculations from the data extracted from CBN statistical bulletin and National Bureau of Statistics (several editions)

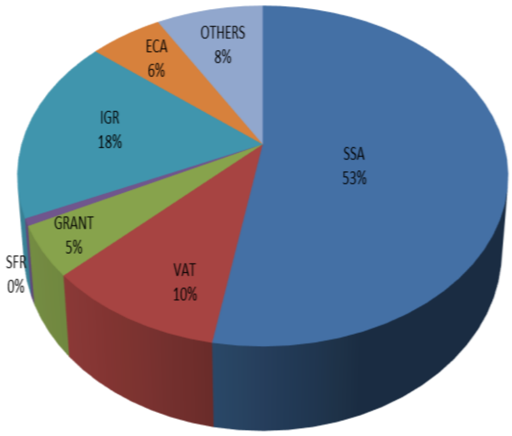
Table 4 above shows a significant reduction in statutory allocations to States to as low as 38% in 2009 while VAT, grants and SFR contributed 9%, 7% and 1% respectively. The proportions of IGR, funds from Excess Crude Account and other funds to total revenue of States were 18%, 14% and 13% respectively. Statutory allocations contributed 50% of total revenue shares to States in the year 2010. In the same year, the second largest contributor to revenue of States was IGR with 15%, followed by funds from ECA with 12%, VAT with 10% and grants with 8%. SFR and other funds only contributed 3% and 2% respectively. While statutory allocations went up by 3% in 2011; VAT, grants, SFR, IGR and funds from ECA decreased by 1%, 5%, 1.9%, 1% and 7% respectively. Revenue from other sources, however, increased astronomically from 3% in 2010 to 15.9% in 2011. There was a decrease in statutory allocations, funds from ECA and other revenue to States by 1% each in 2012. Grants and SFR maintained the same 3% and 0.1% respectively. But VAT and IGR increased to 10% and 16% respectively the same year.

Table 5: Revenue Components of State Governments in Nigeria (2013 – 2017)

	2013		2014		2015		2016		2017	
Components of States' Revenue	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total	Amount (N Billion)	% of Total
SSA	2104.6	54	2122.92	58	1482.6	52	1016.58	41	1462.28	41
VAT	389.53	10	388.85	11	381.27	13	397.06	16	473.77	13
GRANT	35.03	1	43.82	1	18.12	0.1	37.98	2	39.33	1
SFR	27.58	1	0	0	0	0	9.19	0.1	4.71	0.1
IGR	662.05	17	707.86	18.9	693.71	23.9	823.16	32.9	936.47	25.9
ECA	172.29	4	28.22	0.1	5.8	0.1	120.13	5	79.8	2
OTHERS	514.3	13	380.36	10	277.52	10	67.71	3	582.12	17
Total Revenue	3,905.38	100	3,672.035	100	2,859.024	100	2,471.809	100	3,578.482	100

Source: Author's calculations from the data extracted from CBN statistical bulletin and National Bureau of Statistics (several editions)

Table 5 reveals the usual average contribution of statutory allocations (i.e., 54%) of total revenue accruals to States in 2013. Also, VAT, grants, SFR and IGR contributed 10%, 1%, 1% and 17% respectively. Funds from ECA only contributed 4% while other sources contributed 13%. In 2014 there was an increase in statutory allocations, VAT and IGR by 8%, 1% and 1.9% respectively. Grants remained 1% while funds from ECA and other sources reduced to 0.1% and 10% respectively. There was no record for SFR in 2014 and 2015. Again, statutory allocations, VAT and grants contributed 52%, 13% and 0.1% respectively in 2015 while the respective proportions of IGR, funds from ECA and other sources were 23.9%, 0.1 and 10%. It could recall that Nigeria's economy slid into recession in the first quarter of 2016 and this contributed to significant reduction in statutory allocation by 11%. Though VAT and IGR increased to 16% and an impressive 32.9% respectively in 2016, but grants, SFR, funds from ECA and other sources were 2%, 0.1%, 5% and 3% respectively. In 2017, statutory allocations maintained its previous year proportion of 41%, VAT was 13% and grants as well as SFR were 1% and 0.1% respectively. Also, IGR contributed 25.9% and the proportions of funds from ECA and other sources were 2% and 17% respectively.



Source: Author's graphical illustration from the data extracted from CBN statistical bulletin and National Bureau of Statistics (1997 - 2017)

Fig 1: Revenue Structure of State Governments in Nigeria (1997 - 2017)

Fig 1, derived from the data in Appendix I, indicates that the revenue share of the States from the Federation Account is 53%, which is above the average of the total revenue accruals to the States. This is followed by IGR with a distant 18% of the total revenue. Also, VAT is 10%, grant to States is 5%, fund from excess crude account to States (which only commenced in 2005) is 6% and fund from other sources (which includes budget augmentation, NNPC refund, Paris Club refund, etc.) is 8%, while stabilization funds receipts is almost 0%. The contribution of statutory allocations to total revenues of States is quite high. This is not unconnected with the fact that Nigeria is an oil rich nation and revenue therefrom is always assured for distribution to the various tiers of government.

Similarly, Fig 1 has three distinct features. Firstly, the revenue structure of State governments can be grouped into two, namely: external revenue and own revenue. The former includes statutory allocations, VAT, grants, excess crude account to States, SFR and other funds while the latter is the independent Internally Generated Revenue (IGR) of States. Secondly, own revenue accounted for just 18% while external revenue contributed the remaining 82% of the total revenue accruals to States. The third feature is that own revenue is only almost one-fifth of the Sates' total revenue, hence, fiscal viability of this tier of government is indeed a source of concern. The implication here is that the State governments in Nigeria heavily depend on funds from the external sources and as such are not financially independent.

4.1 Discussion of findings

The system of allocating revenue in Nigeria mandates that a certain proportion of the Federation Account be allocated to State governments. Findings of the descriptive analysis of this study revealed that these funds seem not enough to meet the ever-increasing expenditure requirements of States. This is owing to the fact that the size of the account hinges on oil revenue which is subject to fluctuations while the expenditures of State governments far exceed the available resources. The instability that characterised the revenue shares from the Federation Account to the States over the years dictates the degree of fiscal viability of this tier of government in Nigeria.

Though there was a rise in the nominal value of statutory allocations to States from N 50.8 billion in 1997 to N 66.06 billion in 1998 but this increase was greeted with a fall in the proportion of this revenue component to total revenue by 6% as a result of the adoption of Medium-Term Expenditure Framework (MTEF) in 1998 which was a part of broad package of budget reforms introduced with a view to reducing frivolous expenditure. Also, the then military government succeeded in reducing the inherited two-digit inflation rate in the economy to a single rate of 8.5% in the year 1998 (NBS, 1999) [12].

The Federal government was accused by oil producing States of not adhering to derivation principles as enshrined in the 1999 constitution of Nigeria. This resulted in the onshore-offshore dichotomy in which crude oil found in the sea was not be ascribed to the adjoining State; invariably this was done to reduce huge revenue allocation to oil producing States by the Federal government. The controversy surrounding the onshore-offshore dichotomy led to agitation for "resource control" from oil proceeds. This culminated in the inauguration of Revenue Mobilization and Fiscal Commission (RMAFC) in 1999 which barred the Federal government from interfering in revenue sharing. As a result, the statutory allocation to States in 1999 was almost double its previous year figure. Thus, the results of the findings are anchored on Inclusive Model of Inter-governmental relationship which is predicated on a centralised and hierarchised system. The emphasis here is that Federal government has no area of jurisdiction of its own where revenue is generated; it only relies on the various sources spread over the lower units of the government.

Due to expansionary fiscal policies of government in the years 2000 and 2001, the tempo of the preceding year was maintained as statutory allocation to States continued to soar up to higher level.

A sharp decline in statutory allocation to States both in nominal values and proportional contributions in 2002 from its previous year figure was not unconnected with the significant reduction in the volume of crude oil output necessitated by activities of the militants and oil pipeline vandals in the oil-rich Niger Delta region of the country.

Years 2003 and 2004 witnessed improved statutory allocations as their proportions to total revenue of States rose from 56% in 2002 to 62% and a whopping 70% in 2003 and 2004 respectively. This was as a result of the government's effort to implement National Economic Empowerment and Development Strategy (NEEDS). The reform, within its shortest time frame, was able to raise the country's standard of living through a variety of policies and programmes of government including deregulation, liberalisation and privatization. This supports the findings of Moore (2014) [11] which concluded that recent tax reforms in Anglophone Africa contributed only to the availability of commensurable increases in revenue generation.

The marginal increase of 1% in statutory allocation to States in 2006 over its previous year proportion was not spontaneous despite relentless government efforts towards enhancing improved revenue in the preceding years. Nigerian government successfully achieved a milestone agreement with the Paris Club of lending nations to eliminate all its bilateral external debts. Under this agreement, the economy was forgiven most of its debts and paid off the remainder with a significant portion of its oil revenue for the year. Thus, the revenue shares to States in this fiscal year were indeed affected.

There was a significant fall in the proportional contribution of statutory allocation to States' total revenue by 12% in 2007 which was due to global financial crisis of 2007–2009. The increase in statutory allocation to States in 2008 was not encouraging as the economy was still battling with the spill-over effect global financial crisis of the previous year. The sharp decline in statutory allocation to States both in nominal values and proportional contribution in 2009 necessitated a severe fiscal crisis for this tier of government in Nigeria. The revenue share from the Federation Account was far below the average and this was due to 2007 – 2009 global financial crises. This economic downtown affected all tiers of government. The resultant effect was that revenue share from the Federation Account became to dwindle gradually. The government had to look to the Excess Crude Oil Account (ECA) to make up for the revenue shortfall in 2007, 2008 and 2009 fiscal years.

The situation began to improve when the proportion of revenue share from Federation Account attained an average in 2010 while the three subsequent years' proportions were marginally above the average. But the impact global financial crisis was then being felt in various sectors of the economy. Fiscal authorities, both at the Federal and State levels, were faced with severe revenue constraints during the period as revenue and foreign exchange earnings dropped significantly after oil prices succumbed to the pressure in the world market.

Year 2014 was accompanied with an increase in statutory allocation to States following the boom in the sales of oil which was peaked at an average of $105 per barrel in the world market. There was a drastic reduction in the proportion of statutory allocation to States in 2015. This was due to dwindling revenue as a result of fall in the global oil price on one side and low oil production on the other side, caused by the renewed activities of the Niger Delta avengers and similar economic saboteurs in the country. National Bureau of Statistics (NBS, 2017) [13] reported that Nigeria's economy slid into recession following two consecutive quarters of negative economic growth commencing from January, 2016 and began to recover in June, 2017. Thus, revenue shares from the Federation Account were greatly affected as their proportions to the total revenue of States remained unchanged in the two years.

The findings from this study revealed that changes in the statutory allocations are in line with Peacock and Wiseman Hypothesis of Public expenditure. The hypothesis emphatically stressed that public expenditure (like statutory allocation like in this case) does not increase in a smooth and continuous manner, but in jumps and jerks or step like fashion. The findings of the study corroborated the hypothesis as it pointed out that there emerged new levels of tax tolerance that will make the economy willing to support higher levels of public expenditure. The findings are not in isolation but predicated on the Keynesian economic theory which states that government must intervene in the economy through increased public spending and lower taxes.

5. Conclusion

The results revealed that total revenue (which is a measure of fiscal capacity) of States in Nigeria is grossly inadequate to finance government expenditure, this necessitates the need for borrowing. The findings from this study revealed that changes in the statutory allocations are in line with Peacock and Wiseman Hypothesis of Public expenditure. The findings of the study corroborated the hypothesis as it pointed out that there emerged new levels of tax tolerance that will make the economy willing to support higher levels of public expenditure. The findings are not in isolation but predicated on the Keynesian economic theory which states that government must intervene in the economy through increased public spending and lower taxes. It is therefore recommended that State governments should embark on enumeration of the identified revenue sources in their areas of jurisdictions so that they are all captured in the data base of the States' Board of Internal Revenue (BIR).

6. Appendices

Appendix I: Revenue Structure of State Governments in Nigeria (1997 - 2017)

Year	SSA	VAT	GRANT	SFR	IGR	ECA	OTHERS	TRS
1997	50.8	13.91	4.34	0.45	27.46	0	0	96.96
1998	66.06	16.2	31.37	0.24	29.75	0	0	143.20
1999	103.66	23.75	6.55	0.923	34.11	0	0	168.99
2000	251.57	30.64	33.29	5.78	37.79	0	0	359.07
2001	404.09	44.91	58.07	7.06	59.42	0	0	573.55
2002	388.3	52.63	129.71	9.57	89.61	0	0	669.82
2003	535.18	65.89	134.18	0.99	118.77	0	0	855.00
2004	777.21	96.2	104.35	2	134.18	0	0	1,113.94
2005	920.99	87.45	137.46	10.78	122.74	140.23	0	1,419.64
2006	1016.08	110.57	125.23	11.89	125.23	154.77	0	1,543.77
2007	1109.34	144.38	209.38	37.69	305.72	258.9	0	2,065.41
2008	1709.2	198.1	179	53.4	353.06	354.1	87.27	2,934.13
2009	973.8	229.3	188	29.7	461.24	376.85	331.78	2,590.67
2010	1353.7	275.6	224.2	51	420.45	322.4	92.1	2,739.45
2011	1786.3	318	88.7	11.2	490.38	167	548.53	3,410.11
2012	1857.03	347.69	95.67	1.25	584.40	143.9	549.31	3,579.25
2013	2104.6	389.53	35.03	27.58	662.05	172.29	514.3	3,905.38
2014	2122.92	388.85	43.82	0	707.86	28.22	380.36	3,672.03
2015	1482.6	381.27	18.12	0	693.71	5.8	277.52	2,859.02
2016	1016.58	397.06	37.98	9.19	823.16	120.13	67.71	2,471.81
2017	1462.28	473.77	39.33	4.71	936.47	79.8	582.12	3,578.48

Source: CBN statistical bulletin and National Bureau of Statistics (1997 - 2017)

Appendix II: History of State Creation in Nigeria

Regime	Year	Number of Newly created	Name of New State/Region Created
Lord Lugard	1952	4	Northern, Western, Mid-West and Eastern Regions
General Yakubu Gowon	1967	12	North East, South East, Benue, Plateau, East Central, Kano, Kwara, Rivers, Cross River, Gongola, Anambra, Borno, Bendel, Benue, Ogun, Plateau. Lagos.
General Muritala Muhammed	1976	19	Sokoto, Niger, Ondo, Oyo, Kaduna, Bauchi, Imo, Kwara, Borno, Bendel, Benue, Ogun, Plateau, Lagos.
General Ibrahim Babaginda	1987	2	Kastina, Akwa – Ibom
General Ibrahim Babaginda	1991	10	Yobe, Osun, Taraba, Jigawa. Kogi, Abia, Delta, Enugu, Edo, Adamawa
General Sani Abacha	1996	6	Zamfara, Bayelsa, Gombe, Ekiti, Ebonyi, Nasarawa

Source: https://grafrica.com.ng

Appendix III: Map of Nigeria showing 36 States plus FCT

Source: https://grafrica.com.ng

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