NIGERIAN INTERGOVERNMENTAL FINANCIAL RELATIONSHIPS
-- FROM INDEPENDENCE TO THE 1966 COUPS D'ETAT

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Introduction

A substantial part of the exercise of political art centers around the division of the tax burden and allocation of public expenditure among the various income groups, occupational classes, geographical areas, and ethnic groups comprising a nation. Unsatisfactory performance of this task may lead to pressures for a change in government or for a change in the form of government by democratic or violent means. This paper will examine (1) the financial federal structure of Nigeria to see what considerations have determined the structure of public finance in that country and (2) how the use and manipulation of that structure have affected the expansion of expenditure by the Federal Government and four Regional Governments of that African nation. Our primary interest will be in the period of official African rule, from Independence as of October 1, 1960, to the military coups in 1966. Nigeria entered nationhood with political power centered in three political parties, each being preeminent in one region: the Northern Peoples' Congress in the North, the Action Group in the West and the National Council of Nigeria and the Cameroons in the East. The dominant people of each region differed from the major groups of the others in language, religion, stages of economic and educational development, degree of centralization in society, etc. Regional leaders were frequently fearful of risking their political fortunes in the new national government where relationships and dominance were less assured than in

their seemingly secure regional fortresses. In addition, in drawing up a national constitution, Regional Governments were granted substantial powers while the Federal Government was weaker than in most other African nations. The political process that led to Nigerian nationhood is described in books by Coleman and Schwarz.[1] The revenue system that developed in Nigeria was, of course, a function of these political forces. The best description of the evolution of the Nigerian intergovernmental financial relationships before Independence is given in Okigbo's recent book.[2]

In the first section of this paper, we shall examine the fiscal structure which Nigeria had inherited and achieved at the time of Independence. The structure of the financial relationships between the Federal and Regional governments was based on the recommendations of the Raisman Commission and was given in the Nigerian Independence Constitution. Although the emphasis of this paper will be on the Federal-Regional relationships, a brief description of the financial relationships of the Northern Regional government and its Native Authorities will also be given to illustrate the financial status of local government in Nigeria.

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[1] James S. Coleman, Nigeria: Background to Nationalism, University of California, Berkeley and Los Angeles, 1958; and F.A.O. Schwarz, Jr., Nigeria: The Tribes, The Nation, or the Race, M.I.T. Press, Cambridge, 1965.

[2] Pius N. C. Okigbo, Nigerian Public Finance, Northwestern University Press, Evanston, 1965, pp. 5-49.

Section II will examine the various points at which the financial structure as established in the Independence Constitution has been questioned, at which the Constitution left considerable leeway for the working out of details to the administrative and political processes, and at which ad hoc arrangements have been necessary. It will be shown that the points of contention which will be discussed are of sufficient number and scope to vary the allocation of financial resources among the governments of the Federation considerably from the distribution set forth specifically in the Constitution. The importance of the resulting flexibility in the Nigerian financial system will be commented upon Section II also will describe the formation and proceedings of the 1964 Fiscal Review Commission which was established to recommend upon the appropriateness of the constitutional provisions which allocated certain revenue sources among the governments. The desirability of such a commission in the Nigerian political context will be considered as will the Commission's recommendations. Section III will discuss what has happened to each government's financial position in the post-Independence period. Noteworthy trends will be discussed. Finally, Section IV will present a brief overview of how the Nigerian intergovernmental financial relationships might be viewed from a systems approach.

I. The Fiscal Structure at Independence

(1) Federal-Regional Relationships

The fiscal structure which Nigeria possessed upon becoming independent on October 1, 1960, had been in force since April, 1959. It resulted from the adoption by the Constitutional Conference of the recommendations of the Raisman Commission, which had been appointed by the 1957 Constitutional Conference and had submitted its report in June, 1958. While the terms of reference and recommendations of the Commission were accepted by Nigerian representatives to the Constitutional Conferences, the Commission composition and the majority of Nigerian government civil service officials with whom the Commission met were expatriate. It is noteworthy that of the private persons apparently consulted by the Commission, none were Nigerians.[3]

The Raisman Commission was the fourth in a series of postwar fiscal reports and commissions which adjusted and rationalized a federal financial structure for colonial Nigeria. The initial Regional Assemblies established under the Richards Constitution had no power to raise funds. The need to provide the Regional administrations with revenue sources which were under Regional control influenced the report

[3] Colonial Office, Nigeria: Report of the Fiscal Commission, Her Majesty's Stationery Office, London, 1958, pp. 58-61.

of Sir Sidney Phillipson to (1) declare, where feasible, Regional revenue sources and (2) provide block grants to the Regional administrations from national revenues which were allocated on the principle of derivation. The principle of derivation which is mentioned throughout the literature on Nigerian financial arrangements may be defined as meaning that revenue should be allocated among the geographical regions of the nation according to the incidence of the tax upon the citizens of the regions. Usually this incidence has been determined in a rudimentary and partial equilibrium sense, with little or no consideration of second order effects, such as shifting, or upon the supply of effort. Fortunately, in those areas of incidence theory where our knowledge is least secure, e.g., the companies' income tax, use of the derivation principle has not been attempted. In addition, in the case of certain taxes such as export duties and mining royalties, the principle of derivation as applied in Nigeria refers to the geographical source of the product rather than to even the primary incidence of the tax. Derivation can be applied either by making a revenue source Regional or by assigning a revenue item collected by the Federal Government to the Regions based on statistical data concerning the regional derivation of the revenue.

In 1951 Phillipson and Sir John Hicks comprised a Commission on Revenue Allocation which added "need" as a criterion for revenue allocation among the central and Regional governments to the already firmly established principle of derivation. In this instance, "need" was

simply determined by the number of adult male taxpayers in each Region. Specific-purpose grants to the Regions controlled by the central government were also to be used for purposes in the "national interest."

Due to political developments, the Commission of Sir Louis Chick in 1954 was given terms of reference stressing the use of the principle of derivation to the "fullest degree compatible with meeting the reasonable needs of the Centre and each of the Regions." Chick's findings under such restrictive terms of reference virtually eliminated the use uf the concept of "need" in revenue allocation except for discretionary grants which could be made to regional governments in times of financial distress.

With this background of a fiscal system based almost solely on the principle of derivation, the aforementioned Raisman Commission acted under the following terms of reference:[4]

> (a) To examine the present division of powers to levy taxation in the Federation of Nigeria and the present system of allocation of the revenue thereby derived in the light of:
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> (i) experience of the system to date;
> (ii) the allocation of functions between the Governments in the Federation as agreed at the present Conference;
> (iii) the desirability of securing that the maximum possible proportion of the income of Regional Governments should be within the exclusive power of those Governments to levy and collect, taking into account considerations of national and inter-Regional policy;

[4] Op. cit., p. 1.

(iv) in connection with (iii) above, the special problems in the field of indirect taxation as a result of the position of Lagos as Federal territory;

(v) insofar as the independent revenues that can be secured for the various Governments are insufficient to provide not only for their immediate needs but also for a reasonable degree of expansion, and bearing in mind the Federal Government's own further needs, the desirability of allocating further Federal revenue in accordance with such arrangements as will best serve the overall interest of the Federation as a whole.

(b) To consider what fiscal arrangements would be most appropriate for the Southern Cameroons, including whether that territory should be treated as a Region for the purposes of revenue allocation; and to advise on the extent to which additional financial assistance might be required to meet the immediate needs of that territory and to provide for a reasonable degree of expansion; and to indicate the form which this assistance should take.

(c) To consider the adequacy of present arrangements for coordination of loan policies, governmental borrowings and capital issues, having regard to the decision to set up a Nigerian Central Bank and a Nigerian currency at an early date.

(d) To make recommendations on the above matters.

(e) Pending the submission of their final report, to consider as a matter of urgency the extent (if any) to which, as an interim measure, the provisions of sections 155 to 163 of the 1954 Constitution Order should be varied to reflect more accurately the principles to which they were designed to give effect.

(f) To be empowered, in making their interim report, to specify the date on which any proposed readjustments should come into effect.

(g) To submit both interim and final reports to a resumed Conference.

The task of the Raisman Commission can be considered to have been twofold. First, the Commission had to provide sufficient revenues to each of the governments to meet each government's financial requirements according to the criteria which will be discussed below. The amounts which would be required theoretically would have nothing to do with the specific revenue sources from which they came. Strict adherence to the principle of derivation would imply its use for all revenues. Use of the principle of derivation for only some revenue sources would imply the use of other allocation criteria as well.

The second task of the commission would be to determine which level of government was best suited to administer and determine the rates of the various revenue sources. Criteria which might determine such decisions are cost, administrative effectiveness, need for national sovereignty, need for uniformity to promote the freedom of trade, desire for regional autonomy, etc. The financial results of these two exercises of determining revenue allocation and revenue collection responsibility would only coincide by chance. In effect, it was found by the Raisman Commission that the Regional governments required far more funds than could be provided by the revenue sources which it was desirable for them to control. Consequently, the Raisman Commission allocated to the Regions all or fixed portions of various revenue items for which legislation and administrative responsibility was to remain with the Federal Government. Revenue sources for which the Regional

Governments were responsible (not including revenue provided by their marketing boards) financed only 19 per cent of total regional expenditure in 1960/1. The foregoing situation was implicitly preferred to the other alternatives:

(i) Complete autonomy of Regional and Federal Government finances which would imply an overabundance of funds for Federal expenditure responsibilities and an insufficiency for Regional responsibilities under the recommended division of collection responsibilities.

(ii) Transferring to the Regional Governments the responsibilities for legislation and administration of revenue sources for which the Federal Government is better suited.

(iii) Transferring expenditure responsibilities from the Regional to the Federal Government.

Five principles were primary in determining how revenue sources were to be allocated among the then existing three regions and the Southern Cameroons. Below the strengths and failings of these principles are discussed:

(i) Continuity. To reduce the financial resources of any government below the level of existing services being provided was felt likely to cause more harm than to distribute funds so released to other governments which might have "higher priority" uses for them. Full acceptance of this principle would tend to force any new allocation of

revenue to be made from the growth of revenue sources above present levels. It also implies a quadratic type of utility function for each government with the marginal utilities of revenue for each government at the present position being equal, thus having a loss of a unit of revenue from the initial position of one government more than offsetting the value of a gain of a unit by another government. Adherence to the principle of continuity would encourage governments to spend as much as possible before the convening of any new fiscal review commission in order to bolster its future allocation.

(ii) Derivation. The principle of derivation is related to the concept of benefit taxation. It is based on the principle that those who pay the taxes, at least from a geographical or regional point of view, should receive the benefits. Absolute acceptance of such a concept denies the national government the power to effect inter-regional redistributions of income. Few nations would be willing to nullify such a power. Adherence to the regional derivation principle could be circumvented by Federal Government expenditure in patterns different from the Regional incidence of the taxes it collects. Assuming acceptance of the derivation principle, its implementation runs into two pitfalls: (1) lack of agreement on the theoretical incidence of certain taxes, a prime example being the companies income tax, and (2) inaccurate statistical data concerning incidence. For example, the final destination of many Nigerian imports is unknown at the time they pass through

customs and no reliable regional consumption statistics are available. The errors which might be made in attempting to apply strictly the principle of derivation could be expected to be substantial.

(iii) Need. To define relative need is a precarious undertaking, especially in view of the lack of an accepted means of making interpersonal utility comparisons. To make the "need" criterion operational, a Fiscal Review Commission might either make a blanket evaluation of the financial requirements of each of the governments with only an intuitive justification or might select one or several proxy variables which could be used to indicate relative need. In fiscal discussions in Nigeria, mention of four indicators of relative need has been predominant:

(a) Maximum Growth. If maximization of Gross National Product is the primary goal, then need might be represented by existing levels of expenditure or some other criterion which would even further make available resources to governments of those regions which are relatively more advanced. It might be contended that pushing development faster in those areas where it already is occurring will lead to the greatest benefits for the nation as a whole. High-return projects are expected to exist primarily in those areas which already have been subject to some development. While the foregoing argument is frequently used to support greater allocations for the presently more developed areas, it remains possible that the greatest economic returns

would be found in projects in the less developed regions and therefore that current expenditures are an inaccurate indicator of the future allocations which should be made in order to maximize national economic growth.

(b) Balanced Growth. It is implied by this indicator that development from an initial position for all regions at the same rate is of equal benefit. Such an argument would lead to either the total or capital expenditure program of each government to be expanded at the same rate. Allocations would thus be based on the existing levels of expenditure by each government. Use of the balanced growth criterion based on 1964/5 total expenditure would lead to the following distribution of Regional revenues: North 31.9 per cent, East 32.6 per cent, West 27.3 per cent, and Mid-West 8.8 per cent.

(c) Population. Acceptance of this variable implies that each government should be able to spend the same amount per capita. Each person in Nigeria would be entitled to the same benefits from his government irrespective of the amount of taxes he pays, investment opportunities, the existing level of services provided, etc. Pure use of the population criterion would lead to the following distribution of Regional revenues according to the 1963 census: North 54.1 per cent, East 22.6 per cent, West 18.7 per cent, and Mid-West 4.7 per cent.

(d) Minimum or Equal Standards. If the aim is the egalitarian one that each region should provide similar standards of service to its citizens in certain or all fields of government endeavor, then the concentration of revenue allocation in poorer areas may be even greater than that indicated by population. For in order to be able to provide services on an equivalent per capita basis, capital investment would have to be made to provide the facilities and training of individuals necessary for the government to furnish the services. The degree to which this allocation would be necessary will, of course, depend on how far it is considered should services be equalized or the minimum standards be achieved. The difference in government services and economic standards of the different sections of Nigeria is substantial. The total Regional Government expenditure per capita in Northern Nigeria has been less than half that of the Eastern and Western Regions. In 1962 there were over three times as many people per hospital bed in Northern Nigeria as in the other regions. The numbers of students in primary and secondary schools in the North as a percentage of the national total were 11 per cent and 7 per cent respectively, although the 1963 Census attributed over 50 per cent of the Nigerian population to the North.

(iv) Equal Effort. It would be considered unfair for one region to receive an allocation of revenues based on need if that region was unwilling to levy the taxes under its power at rates and with collection effort commensurate with those in force in the other regions. Differences in income tax and other regional tax rates are sometimes substantial. A few taxes have been levied by only one Region, e.g., the petrol purchase tax by the East. If equal effort were not a criterion for revenue allocation, a region might attempt to obtain as much as possible from the Federal revenue allocation but keep its own taxes as light as possible.

The extent to which the Raisman Commission relied upon each of the above criteria is indeterminate due to the nature of the report it submitted. Most were mentioned explicitly in passing in the Commission's report, but with no formal indication of the weight given to each. The allocation of revenue sources as recommended by the Raisman Commission which Nigeria possessed at Independence can be summarized as follows:

(i) Revenues collected and retained by the Regional Governments and the Federal Government with respect of Lagos: Personal income taxation, produce sales tax, entertainment tax, betting tax, earnings and sales of regional government ministries and departments, licenses and fees for subjects of regional jurisdiction, rent on regional government property, interest on regional government investments, etc.

(ii) Revenues collected and retained wholly by the Federal Government: Companies' income tax; beer, wine, and spirits import and excise duties; 20 per cent of mining rents and royalties; 70 per cent of general import duties; licenses and fees on subjects of federal jurisdiction; earnings and sales of federal ministries and departments; rent of federal government property; interest on federal government investments; revenue from post and telegraph and armed forces activities, etc.

(iii) Revenues collected by the Federal Government but allocated to the Regions and itself with respect to Lagos according to the principle of derivation: Tobacco import and excise duties; motor spirit and diesel oil import duties; export duties; 50 per cent of mining rents and royalties.

(iv) Revenues collected by the Federal Government and allocated to the Regions in accordance with the Distributable Pool formula, i.e., 40 per cent North 24 per cent West, 31 per cent East, 5 per cent Southern Cameroons: 30 per cent of mining rents and royalties and 30 per cent of general import duties.

In addition to these allocations, the Federal Government was to be given responsibility over the raising of external debt. Both the Regions and the Federal Government retained the right to issue internal debt although responsibility for the banking system was to be a matter of Federal jurisdiction.

(2) Regional-Local Government Relationships

While the focus of this paper is on Federal-Regional financial relationships in Nigeria, the organization of local government finance cannot be ignored. Local government organization is not dealt with in the Constitution. Therefore, it is a residual matter of Regional responsibility. Local government is therefore vested with no jurisdictional powers by the Constitution. All of its powers are delegated by acts of the Regional Governments. Therefore, uniformity as to the functions and finances of local government bodies in the various regions is not necessary nor is it prevalent. Local government bodies have more responsibilities in the North where local government administration has an ancient tradition which long predates the English conquest. In contrast, in the East there was little formal local government administration organized prior to the British colonization. The relatively different levels of activity by local governments in the various regions make it desirable to consider consolidated Regional-Local Government financial statements when comparing levels of Regional Government expenditure or tax collection effort. Otherwise, for example, comparisons of Regional statements alone would understate both the level of government services being provided in the North and the taxation effort the North is making in the self-support of its own development.

Eliminating grants from Federal and Regional Governments to local authorities to avoid double counting, the net consolidated regional recurrent revenues appear in Table 1 and net consolidated regional expenditures appear in Table 2 for 1960/1.

The relationships between regional and local governments may be exemplified by a discussion of those existing between the Northern Nigerian government and its Native Authorities and Townships. These relationships may be discussed under four headings: income taxation, grants, borrowing, and investing.

(A) Income Taxation. Under the Northern Nigeria Personal Tax Law of 1962, Native Authorities retain 87 1/2 per cent of the revenue they collect from the community and cattle taxes, the forms of personal taxation which affect the broad base of taxpayers in Northern Nigeria. The remaining 12 1/2 per cent of the revenue from these sources is paid by the Native Authorities to the Regional Government. The Native Authorities also retain 20 per cent of the personal income tax collected by the Pay As You Earn system from Native Authority employees.

(B) Grants. In any given year the Regional Government share of direct taxes is more than offset by grants it makes to local government bodies. One might ask why the grants cannot be abolished and the Native Authorities be allowed to retain 100 per cent of the direct taxes. Table 3 shows the net financial outcome in recent years if the Regional grants to Native Authorities and payments to the Regional Government of shares of the community and cattle taxes had been eliminated.

TABLE 1

NET CONSOLIDATED REGIONAL RECURRENT REVENUES 1960/1

	North	West	East
Regional	£ 17.6 m	£ 20.7 m	£ 16.7 m
Local Authorities	9.9	7.1	2.4
Total	27.5	27.8	19.1

Source: Okigbo, P. N. C., "Nigerian Public Finance," Northwestern University, Evanston, 1965, Tables 6 and 10.

TABLE 2

NET CONSOLIDATED REGIONAL EXPENDITURES 1960/1

		North	West	East
Recurrent:	Regional	£ 16.3 m	£ 19.4 m	£ 13.5 m
	Local	8.3	6.4	2.8
	Total	24.6	24.1	16.3
Capital:	Regional	6.7	14.3	4.9
	Local	3.4	1.4	0.2
	Total	10.1	15.7	5.1
GRAND TOTAL		34.7	39.8	21.4

Source: Okigbo, op. cit., Tables 8 and 15.

TABLE 3

THE OFFSETTING NATURE OF NORTHERN REGIONAL

GOVERNMENT-NATIVE AUTHORITY TRANSACTIONS

(in £ millions)

Financial Year	Native Authority Total Budget Surplus or Deficit (-)	Grants to Native Authorities from Regional Govt.	Regional Govt Share of Community & Cattle Taxes	Net Native Authority, Se Generated Surplus or Defic
	(1)	(2)	(3)	(1) - (2) + (
1959/60	-0 2	1 3	1.1	-0.4
1960/61	-0.4	1.4	1.1	-0 7
1961/62	0.3	1.4	1.2	0.1
1962/63	0.9	1.6	0.8	0.1
1963/64	1 5	1.7	1.1	0.4
timate 1964/65	0 5	2.2	1.5*	-0.2
TOTAL	2.6	9.6	6.8	-0.2

*Actual

Source: Northern Nigeria Local Government Yearbook 1966 and various Northern Nigeria Accountant-General's Reports.

Several reasons may be offered in support of the retention of the present system or of some modification thereof. First, the grant system in theory allows greater control by the Regional Government of the finances and activities of the Native Authorities. The use of grants permits the Regional Government to ensure that Native Authorities fulfill performance and accounting standards which are established by the Regional Government. Financially autonomous local government bodies might tend to become autonomous in policy to an extent deemed undesirable by the Regional Government or be plagued with uncontrolled corruption. Secondly, the direct taxes which would be retained by the Native Authorities will become of lesser importance as the Nigerian economy develops. The Regional personal income tax will apply to a larger portion of the population who will also have larger incomes as time passes while the potential for increasing the tax rates for those remaining under the community and cattle taxes will be quite limited. The financial autonomy of Native Authorities in an expanding economy, if desired, would better be achieved by giving Native Authorities the same percentage of the revenue collected from all forms of direct taxation rather than making the expanding revenue sources regional and the declining forms local. Thirdly, the grants-in-aid from the regional to local governments serve as a safety valve in adjusting the relative financial positions of the Regional and local governments. They can readily be expanded or contracted to meet special financial requirements of either

the Regional or local governments. Furthermore, they can serve to effect the redistribution of finances among Native Authorities according to the principles of need and achievement, rather than basing Native Authority finance solely upon the principle of derivation.

The mechanism for the review of Regional-local government financial relationships in Northern Nigeria is not formally defined. This matter can be approached on an ad hoc basis for which the adjustment, abolition or creation of grants-in-aid may be the most effective tool, especially for matters that require prompt action. The alternative of a local government finances review commission was attempted in Northern Nigeria in 1963. However, the approved findings of the Sowerby Report on local government finances have not yet been fully implemented.

The nature of the grants-in-aid given by the Northern Nigerian government to Native Authorities and Townships is also of interest.[5] The grants may be divided into two types: (i) those paid on the basis of a certain amount per person using the facility, per institution, or per trained member of staff and (ii) those which are reimbursements of a given percentage of approved expenditure. Both types of grants involve burdensome accounting procedures required in the claiming of the

[5] A detailed listing of the grants is given in the Northern Nigeria Local Government Yearbook 1966, Department of Local Government, Institute of Administration, Ahmadee Bello University, Zaria, pp. 46-52.

numerous available grants. The primary economic difference between the two types of grants arises from their differential impact on the allocation of local government expenditures. The second category of percentage reimbursements will lead local government bodies to spend more funds on reimbursable items than would be done in the case of block grants being made to the Native Authorities since the marginal cost of additional expenditures under percentage reimbursements to the Native Authorities is less than 100 per cent of the aggregate marginal cost (Marginal Cost = 100% - the percentage reimbursed). The capacity to influence the local government decision-making process may be desirable. However, the creation of grants to date seems to have been an ad hoc process. That this is likely is evidenced by the fact that no capital projects in the top priority natural resources sector are presently percentage reimbursement grant aided. Consequently, the grant system is in the anomalous position of offering a relative disincentive to capital projects in that sector considered along with education as being of top priority in the development of the Nigerian economy. The grant system is in great need of being rationalized.

(C) Borrowing and Investing. Inevitably some Native Authorities find themselves in financial difficulties due to seasonal imbalances of revenue and expenditure, financial mismanagement, or civil insurrection. Native Authorities must obtain short-term funds to meet such situations. Prior to 1963, such short-term borrowing was done from commercial banks,

The wide differential between borrowing and lending rates of the commercial banks has led the Regional Government to offer itself to act as an intermediary for such operations. Under the Surplus Funds Seposit Account scheme, Native Authorities deposit surplus funds with the government and receive interest at a rate of 1 per cent below the Central Bank rediscount rate. Deposits can be withdrawn upon notice to the Ministry of Finance. Native Authorities requiring additional funds borrow from the account at a rate equal to the Nigerian Central Bank rediscount rate, a rate substantially below that which is charged by the commercial banks. Applications by Native Authorities for loans from the account are approved by the Permanent Secretary of the Ministry of Finance after consideration by a committee of officials. The government account thus provides effective interest rate competition with banks on deposits and provides easily the cheapest source of short-term credit available to local government bodies. If the use of the account for borrowing is made dependent upon Native Authorities having made deposits previously, this account would be expected either to shift most of the Native Authorities borrowing and lending activity from the banks to government or force the banks to change their borrowing and/or lending rates.

Naturally, deposits and loans from the account will not always balance. Within a year, the fund balance will vary greatly, since Native Authorities have most of their revenue collected in the December to March period. Consequently, the Native Authorities as a whole may be creditors

or debtors of the regional government. To date, deposits have always exceeded loans. In the financial year 1964/5 the net fund position ranged from a low of less than £0.5m in December to over £2.5m at the end of March. Therefore, the net effect of the account creation at a first order of approximation is an increase in the credit available to the Regional Government and a reduction in the credit available to the private sector or indirectly to the Federal Government through Native Authority bank deposits or purchases of Treasury Bills.

Long-term borrowing by Native Authorities from the Regional Government has been more limited. Three stages in borrowing may be discerned. First, in the 1950's and early 1960's the Regional Government and the Federal Government in some cases made loans available to Native Authorities for capital projects which were felt to be beyond the scope of the Native Authorities to finance on their own at the time of construction. Many of the loans outstanding were written off when the Regional Government took over responsibility for most water supplies and other formerly Native Authority responsibilities.[6] The amount of such loans now outstanding is less than £1 million. The accumulation of recurrent budget surpluses by many Native Authorities, the removal from local to regional responsibility of some of the largest capital projects, and other factors led to a period of little Regional loan assistance to

[6] Only the Kano and Katsina Town water supplies remain under Native Authority responsibility in Northern Nigeria.

the Native Authorities' capital development plans in the early 1960's. During this period of quasi-autonomy, Kano's Native Authority negotiated a loan for further extensions of its water supply from Barclays Overseas Development Corporation. Since the loan was from abroad, guarantees by the Federal and Regional Governments were required. No further loans of this type have been negotiated, probably due to the high interest rate of 7 1/2 per cent per annum charged and the relatively short repayment period involved.

Only recently has the problem risen to the fore that certain Native Authorities accumulate surpluses beyond their immediate needs while others are unable to finance reasonable and necessary capital expenditure programs. It has been suggested in the Sowerby Report on Local Government Finance in Northern Nigeria that the discrepancy between need and resources on the part of the Native Authorities be met by a capital loans pool for Native Authorities which would in fact allow the surplus Native Authority funds to be used to finance capital development in financially deficient Native Authorities. It seems likely that as time passes few Native Authorities would be able to contribute continuously to such a loans pool. All areas of Northern Nigeria are in need of vast development efforts. Accumulating surpluses which would be used elsewhere could be a way of committing political suicide for even the most traditional Native Authorities. Certainly local government bodies will keep small balances to even out unexpected fluctuations in

revenue and expenditure. However, such balances should be in relatively liquid form such as the surplus funds account with the Regional Government, savings accounts with commercial banks, and Treasury Bills. Few Native Authorities will be able to continue the luxury of autonomy insured by the large accumulations of long-term foreign or domestic assets as are presently held by some Native Authorities. As of April 1, 1965, it was estimated that Native Authorities held reserves of £7 1/2 m.[7]

It would seem likely that the necessary growth of the proposed capital loans pool beyond what would be provided by interest payments, revolving of loans, and initial transfers of existing Native Authority investments and surplus fund account deposits would depend on the Regional Government providing annual loans or grants to the loans pool or on levies being made on the Native Authorities on the basis of Xd per taxpayer or Y per cent of their revenues as their annual contribution to the pool. Perhaps annual Regional contributions to enlarge the loans pool could replace the present burdensome recurrent grants system.

A capital development loans pool would more effectively introduce "need" as a principle of allocation of finances among Native Authorities. Since Native Authority expenditure already requires the approval of the Minister for Local Government, a regionally controlled

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[7] Op.cit. This amount for reserves includes liquid as well as long-term assets.

capital loans fund would not significantly reduce local autonomy in budgeting. Moreover, it might allow greater use of economic criteria for the selection of Native Authority development projects than is presently found. Nevertheless, the addition of another tier to the local government budgeting process might only result in further administrative delays in implementing Native Authority development programs rather than increased economic rationality.

II. Fiscal Developments after Independence

Section I has given the background for the fiscal arrangements between the Federal and Regional Governments at the time of Independence together with a description of the current relationship between one Regional Government and its local government organizations. The present section will consider the problems which arose from the arrangements embodied in the Nigerian Constitution and from issues that were not foreseen in that document. Our discussion may be divided as follows:

- (i) implementation of the constitutional arrangements;
- (ii) treatment of new revenue sources;
- (iii) Federal Government grants to the Regions;
- (iv) external and internal borrowing;
- (v) the 1964 review of the fiscal system;
- (vi) expenditure distribution; and
- (vii) asset holdings.

(1) Implementation of the Constitutional Provisions

(A) Secession of the Southern Cameroons. In a 1960 plebiscite, the Southern Cameroons decided to join the Cameroon Republic rather than remain as part of Nigeria. With its withdrawal, the provision awarding it 5 per cent of the Distributable Pool became obsolete. The Distributable Pool shares in the amended Article 135 of the Constitution were then set at North 40/95ths, West 24/95ths, and East 31/95ths.

(B) Creation of the Mid-West State. When the Mid-West state was created from part of the Western Region in 1963, constitutional provision had to be made for an allocation from the Distributable Pool to the Mid-West. This was accomplished by reducing the West's share from 24/95ths to 18/95ths and giving the Mid-West a share of 6/95ths. While it is obviously more expensive to run two governments than one, no allowance was made in the constitutional amendment. This may have been justified by the view that if a region was to be divided into two, the people of that region should bear any additional burdens incurred by the division. While this argument might be applicable to the people of the Mid-West who voted for an independent region, it is of doubtful applicability to the people of the remaining Western Region who did not participate in the plebiscite.

(C) Jurisdiction over Taxes. Jurisdiction over various taxes and levies depends on whether the items concerned are specified on the

exclusive or concurrent lists of the Constitution or are specified elsewhere in specific clauses of the Constitution. No cases have been brought to the courts by the Regional or Federal Governments in this respect. However, certain questions may be raised as to the appropriateness of Federal Government retention of television license revenue and the administrative arrangements for the allocation of stamp duty revenue.

Item 42 of the Exclusive Legislative List of the Nigerian Constitution gives the Federal Government exclusive legislative authority over "wireless, broadcasting and television other than broadcasting or television provided by the Government of a Region." The question which could be pursued is that if the only television available in a Region is provided by the Regional Government, wouldn't the Regional Government have the authority to levy television license fees rather than the Federal Government?

With respect to stamp duty revenue, matters covered by stamp tuties are spread among exclusively Federal, concurrent and Regional legislative jurisdictions. For stamps impressed by Commissioners of Stamp Duties, direct allocations can be made to either Federal or Regional revenue. However, where postage stamps are used as is allowed by the law, the revenue goes to the Federal Government as the vendor of postage stamps no matter whether the object of the duty falls under Regional or Federal jurisdiction. In compensation for this, administrative arrangements were made before Independence for £25,000 per annum to

be allocated among the Regions on a derivation basis. This amount has not been increased subsequently in spite of a vast increase in the regular stamp duties collected.

(D) Tin Royalty Payment Failure. With the opening of the Makeri Smelter near Jos in late 1961, an administrative lapse led to the failure of the Federal Government to pay the Northern Region its 50 per cent "region of origin" share of the tin royalty as well as the 30 per cent allocation to the Distributable Pool for all the regions. Although acknowledgement of discovery of the error was long in forthcoming, payment of the amounts due (over £2m) was made promptly. This prompt payment at a time of financial stringency for the Federal Government in 1964/5 averted fear that the Federal Government might not be willing to carry out its constitutional obligations concerning the collection and payment of regional revenues. This administrative difficulty led to the observation that the Constitution provides no penalty (e.g., an interest charge) for late payment of the Regional allocations of revenue.

(E) Consultation over Federal Revenues Allocated to the Regions. It has been the practice of the Federal Government to consult with the Regions over changes in tax rates and exemptions for Federally collected taxes which are wholly allocable to the Regions; e.g., alteration of the export duty on cattle hides. While failure to consult with the Regions might lead to unexpected changes in Regional budgetary positions, doing so often results in bureaucratic tieups and inaction in making desirable

rate changes. While consultation would seem necessary, it should be limited to those Regions which are significantly involved with the revenue source being questioned.

The Regional budgets depend on Federal allocations of revenue for from 60 per cent to 80 per cent of their recurrent revenue. Consequently, accurate information concerning revenue estimates and prospects are most important for the Regional budgeting process. Without this information, Regional expenditure can be conservatively biased because of the great uncertainty concerning the next year's Federally collected revenues. Generally, estimates of Federally collected revenue have not been made available to the Regions until the latter had reached a very late stage in their budgeting process. Furthermore, Regional efforts to obtain a regular quarterly review of revenue prospects from the Federal Government have been unsuccessful. Regional governments were often first informed of major changes in tax rates for Distributable Pool revenue sources by the newspapers rather than by official correspondence. The lack of information concerning changes in revenue prospects has been one of the most glaring failures of the constitutional revenue allocation system. Fortunately, monthly accounting statements detailing receipts of Federally collected Regional revenues are sent by the Federal Government to the Regions which allow extrapolation of future revenue trends from historical data. Such extrapolations can enable the Regional Governments to keep aware of likely effects on their finances.

(2) Treatment of New Revenue Sources

(A) General Excise Duties. At the time of Independence, the only excise duties collected were on tobacco products and beer which were then the two most important products made by modern industry in Nigeria. In line with the treatment of import duties on these products, the tobacco excise duty was allocated to the regions by Section 132 of the Constitution according to the principle of derivation, and the beer excise duty was retained by the Federal Government. Later, excise duties were levied on mineral waters, soap, and matches as their Nigerian production became significant. However, there was no constitutional provision for the allocation of their revenue proceeds. The constitutional power of the Federal Government over excise duties by Item 38 of the Exclusive Legislative List was therefore deemed to allow it to determine the tax rates and the allocation of such excise duties. Nevertheless, the Federal Government proved amenable to the argument of the Regional Governments that since local manufacture replaced imports, import duty revenue was thereby lost and should be replaced by excise duty revenue. Therefore, it was thought only fair to allocate general excise duty revenue in the same way as general import duty revenue, i.e., 70 per cent to the Federal Government and 30 per cent to the Distributable Pool for allocation to the Regions.

Later this argument became complicated when excise duties were levied on products based on Nigerian raw materials on which an export duty existed. Local manufacture of such products for domestic consumption meant that export as well as import duty revenue would be lost. The proportions would very depending on the ratio of the cost of the exported raw material to the total cost of the manufactured product. Such an argument did not alter the Federal Government's position. The introduction of numerous excise duties in 1964 was followed by the ad hoc allocation of 30 per cent of them to the Distributable Pool. Certainly this avoided an administrative morass which measures redressing the loss of export duties might have caused.

However, this situation was not totally resolved by Federal Government action, since the Regional Governments control the marketing of the major primary products through the Regional Marketing Boards. It would pay Regional Governments in terms of tax revenue to export their produce rather than sell it in the other Regions, especially since the local price is based on the foreign (London) price. The Regional Government concerned would have to supply manufacturers in its own Region to maintain good industrial relations but would have little incentive to do so for manufacturers in other regions. Only a tax on goods sold to other regions equal to the export duty would equalize the realization from sales made abroad and to other regions. But such action may be deemed to be in violation of the national economic policy that there

should be no discrimination in trade between regions. Solution of this problem in a nondiscriminatory manner might be accomplished by one or a combination of the following:

(i) amalgamation of the produce sales and export taxes at the Regional level;

(ii) negotiation of domestic prices rather than having them be export-based;

(iii) elimination of the duty on sales to other Regions; or

(iv) Regional subsidization of selected local manufactures.

(B) Motor Spirit and Diesel Oil Excise Duties. The discovery of oil in Nigeria and the construction of the refinery at Port Harcourt again led to the substitution of local petroleum products for imported products, and thus to the substitution of excise revenue for import revenue. The Binns Fiscal Review Commission dealt with this change before the refinery came into operation in 1965 by recommending that the new excise duties be allocated according to the region in which the products are consumed, as had previously been done for motor spirit and diesel oil import duties. Therefore, Regional revenues were not affected by the shift to local petroleum. In fact, their revenues were increased when one considers the mining rents and royalties paid into the Distributable Pool.

(C) Pools Betting Tax. Pools betting is a matter of Regional jurisdiction. However, the fact that many pools betting firms operate

nationally led to the judgment that administration and collection of the tax wold be best handled centrally, especially since it was originally intended to give a monopoly in pools betting to the partly government-owned Nigerian Pools Co. Ltd. The Eastern and Northern governments passed enabling legislation which allowed the Federal Government to legislate a pools betting tax for them as well as Lagos. The Western Region and the new Mid-West Region, in contrast, have established their own pools betting legislation and tax administration. Subsequently, however, the slowness of the Federal Government in allocating the revenue to the Regions participating in the centralized scheme and its failure to extend effective collection of the tax to new pools betting companies which it was licensing led the other regions to consider repeal of the enabling legislation and creation of their own pools betting tax administrations.

At the beginning of 1966/7, it appeared from the Official Estimates that the East was establishing its own pools betting tax administration, while the North had not yet decided against having this revenue source Federally collected. The following statistics show the relative success of those Regions which have collected pools betting tax and license revenues themselves:

Regions with Own Collection	Actual 1964/5 (in £ 000's)	Estimated 1966/7 (in £ 000's)
West	152	145
Mid-West	36	40
	188	185
Regions with Federal Collection		
East	52	51
North	48	52
	100	103

The Regions which collected pools betting revenue themselves collected 65 per cent of total Regional pools betting revenue in 1964/5 but have only 23 per cent of the Regional population and 35 per cent of 1964/5 total Regional revenues.

(3) Federal Government Grants to the Regions

Although the Raisman Commission recommendations did establish an allocation of revenue among the Federal Government and the Regions, there were no constitutional provisions barring the making of additional grants or loans from the Federal Government to the Regions. The following narrative summarizes the grants that have been made to the Regions:

(A) Natural Resources Grants. The development of the natural resources sector of the Nigerian economy was considered to be of primary importance in the 1962/8 Development Programme. Responsibility for most

natural resources development rests with the ministries of Regional Governments. To induce a rapid expansion of Regional spending on natural resource projects, in the 1962/8 Development Programme it was decided that the Federal Government would subsidize Regional Government expenditures on natural resources to the extent of £25 m over the six-year plan period; provisionally £10m was allocated toward capital expenditures and £15m toward recurrent costs. For capital expenditures, the method of subsidization was to be 100 per cent reimbursement of actual expenditures up to the Region's share of the amount provided by the Federal Government for the purpose. The Federal Government never announced the basis of allocation of the grants among the Regions but the shares resembled the relative Regional populations according to the official census. Reimbursement of "investment" items on the recurrent budget such as research and agricultural education were not allowed. The system gave the Regions the incentive to spend as much as possible at no cost to the Regions until the subsidy could be fully claimed, but none thereafter. Federal Government budgeting of the grants has not served to provide even this incentive, however. The method of reimbursement for the first year of the development plan was not clarified until well into the second. No initial provision for the grants was made by the Federal Government in the financial year 1964/5, thereby concealing from the Regional Governments an accurate estimate of what grants they might expect that year. Certainly, if the grants were not regarded as

being of "high priority," the excuse for the Federal Government could be given at the time the annual estimates were made that revenues were inadequate to make provision for the grants. If this argument is not justifiable, however, there would be unnecessary delays in implementation of the natural resource development plan projects that would be financed by the grant. First, the Regional Government would be expected to budget a lesser amount for the grant-supported projects when it knew the Federal Government had made no initial budgetary provision. Second, even if grants are approved later in the financial year, a substantial lead time might be required before the projects induced by the grant were ready for commencement of construction. As far as inducing the desired regional expenditure, the principles of disbursement and timing of Federal grants should be firmly established and be consistent over time.

The Federal Government made available £4m for natural resources grants for the first three years of the 1962/8 Development Programmes. A further £4.2m has been provisioned for 1965/6 and 1966/7. A final £1.8m will be allocated to the last year of the plan to give the total of £10m promised for the plan period. There is no indication that any of the additional £15m there earmarked to meet recurrent costs will be in fact distributed.

(B) Primary Education. The far lower percentage of the school age population attending primary school in the North as compared with

the other regions has frequently been cited as evidence of the backwardness of the North and as a likely cause of future uneven economic growth of the North as compared with the other regions. This fact of life in contemporary Nigeria led to the provision of £3.1m in the 1962/8 Federal Development Plan for grants for primary education in Northern Nigeria. The Federal Government has made provision for only £1.3m of this amount over the first five years of the Plan. These grants were not listed in any of the three priority categories in the plan for the education sector, but separately below the priority listings with undefined status. Subsequent confusion has arisen over whether the priority of the grants was left undefined by the plan or the grants had lower priority than the other projects in the plan. Disbursement of the grants has been irregular, often coming near the end of the financial year. Often the provision for grants has not appeared in the Regular Estimates of the Federal Government. Consequently, the grant cannot be counted upon by the Regional Government in advance of actual payment. Each year the grant has been made, it has been in a block amount with no conditions as to expenditures. Presumably, the grants would not exceed the Northern Nigeria Government's capital expenditure on primary education. As with the Natural Resource grants, the uncertainty as to whether the grant would be paid in a given year and as to the amount and timing of payment leads to the inducement of additional Regional development expenditure waiting until after actual payment of the grant has been made. Such is not the optimum operation of incentives for capital expenditure.

(C) Sixth Forms. The 1962/8 Development Plan Progress Report listed an allocation of £135,000 for the development of sixth forms in the regions. It is unclear on what basis these grants are made to the regions.

(D) Scholarship Grants. The relative backwardness of the North with respect to education has also led the Federal Government to make grants to the Northern Region to cover the costs of a supplementary number of university scholarships to be awarded by the Northern Regional Scholarship Board. This program begain with the North taking over some Federal scholarships which had already been awarded with the Federal Government paying to the North the cash values of the scholarships at the Federal Government's rates of allowances. Again the dominating principles determining allocation have been the "need" for educated Northerners and the Northern Nigerian Government's inability to afford so many scholarships without Federal Government assistance. Grants of £177,000 per annum have been paid each financial year since 1962/3.

(E) Police and Prison Grants. In Northern Nigeria, Native Authority police forces exist in addition to the nationwide Nigerian Police. This presents an additional expense to Native Authorities in Northern Nigeria which is covered by the Federal Government expenditure through the Nigerian Police in the other regions. Consequently there would be reason for the North to desire equivalent Federal Government financial support of police forces in all regions. This could be

accomplished by (1) Federal Government subsidization of Northern local government police forces, (2) by Regional financial support in Southern Nigeria of police activities in their regions, or (3) by some mix of the first two alternatives. There could be objections to any of the above alternatives until the Native Authority policy in the North are placed under control of the Nigerian Police, rather than remaining under local government supervision. The first payment of an annual £300,000 grant from the Federal Government to the North was made in 1964/5, although it was not shown in the Northern Nigeria accounts until 1965/6. The 1966/7 Federal Government Estimates show a provision for a recurrent budget grant of £300,000 for the Native Authority police forces in Northern Nigeria and a development plan project of capital grants to Native Authority Policy with an estimated total cost of £1.2m; but with no 1966/7 provision. Furthermore, Northern Nigeria Government Estimates show that the Federal Government has paid a grant of £92,000 and a further £36,000 has been promised as reimbursement for the construction of a Native Authority police wing at the Nigerian Police College at Kaduna.

(F) Miscellaneous Reimbursements. The Federal Government from time to time makes payments to the Regions for services performed by the Regional Governments at the request of the Federal Government or which relate to programs which fall under the jurisdictional responsibilities of the central government. Most of these reimbursements have been made to the Northern Regional Government. The amounts involved are frequently

quite small. Below is a list of such reimbursements, the region to which they have been paid, and an estimate of the amount to be paid over the 1960/1 to 1966/7 period:

		Region	Total
1.	Reclamation of Minelands	North	£ 200,000
2.	Hydrological Survey	North	9,000
3.	Malaria Pre-eradication Campaign	North	136,000
4.	Exhibits for International Trade Fairs	All	2,000*
5.	Health Measures at International Airports	North	13,000
6.	Native Authority Police used to police work on the Bornu Railway Extension	North	21,000
7.	Payments in lieu of property rates on Federal Government buildings in Townships	All	225,000*
8.	Agency Fees on Federal Government projects carried out by Regional Ministries of Works	All	2,700,000

*North only.

It is possible that similar payments are made to the regions for other purposes, but are not reflected in the above-the-line accounts of the Governments.

(4) Federal Government Loans to the Regions

The relationship between the Federal and Regional Governments in respect to borrowing may be discussed in three categories: (i) direct loans from one government to another, (ii) allocation of centrally issued internal loan proceeds, and (iii) allocation of external loan proceeds.

(A) Direct Intergovernmental Loans.

(a) Federal to Regional Loans. Direct loans to the Regional Governments for specific or general purposes from Federal Government expenditure items have been rare. In the cases of the extensive participation by the Northern Nigeria Development Corporation in the Cement Company of Northern Nigeria Ltd. and the K. Maroun (Pork Products), Ltd., loans of £500,000 in each case were made to the Northern Nigerian Government in the understanding that similar amounts would be lent by the Northern Nigeria Government to the Northern Nigeria Development Corporation. The rationale for such loans would appear to be based on the Federal Government's decision that such projects were necessary and that the Northern Nigeria Development Corporation's finances required Federal Government assistance if it were to invest without causing corresponding undesirable reductions in the Northern Nigeria Government's capital expenditure program. Again, the general economic backwardness of the North would appear to be the only justification for this special

treatment, since all the regions have industrial projects which required government financing which must be provided at the expense of other projects.

(b) Regional to Federal Loans. In the 1950's loans were made to the Federal Government by the Regional Marketing Boards. Of the loans which totalled £13.7m, the West supplied £7.7m, the North £3.9m and the East £2.1m. The ownership of the loan from the Western Region Marketing Board was later transferred to the Western Region Government which now receives the annual interest payments and principal repayments in its capital receipts. Interest and principal payments for the other regions continue to be made direct to the Regional Marketing Boards. As of March 31, 1965, approximately £9.4m of the loans remained outstanding.

(c) Intergovernmental Float. A further aspect of the internal borrowing relationships among the Federal and Regional Governments is the "float" existing in the current accounts among the governments. This float arises from the fact that generally financially transactions between the governments are not settled by cash payment, but rather by debits or credits to an account each government has entitled the "Other Governments Clearance Fund." Between some governments, transactions may in total be offsetting and remove the need for actual cash transfers to be made. If transactions are persistently biased in favor of one government, regular or special block payments are necessary to keep the account in balance. In the past few years, as is shown in Table 4, the

TABLE 4

INCREASE IN END-OF-YEAR BALANCES OWED BY THE FEDERAL GOVERNMENT TO THE REGIONS THROUGH THE "OTHER GOVERNMENTS CLEARANCE FUND"*

(in £ millions)

	1961/2**	1962/3	1963/4	1964/5	1965/6	Balance as of 2/28/66
North	-0.1	0.5	0.3	4.0	-0.8	3.9
East	-	1.9	2.2	-2.7	1.9	3.3
West	-1.1	1.5	2.0	0.7	-2.7	0.4
Mid-West	-	-	0.2	1.6	-	1.8
TOTAL	-1.2	3.9	4.7	3.6	-1.5	9.3

*From Federal Government Accountant-General's Reports. The amounts given are not always consistent with the balances shown in the Regional Accountant-General's Reports.

**Amounts in the account were negligible before 1961/2. The balances in the accounts between Regions have remained small throughout the period.

Federal Government has persistently owed money to the regions on current account, particularly to the North, East and Mid-West. This debt had arisen through consistent, if not intentional, underestimation of necessary monthly settlement payments by the Federal Government which mainly consist of Regional revenues collected by the Federal Government and in the North also by late settlement of claims made by the Regional Government for reimbursement of payments it has made to the Federal Government Pay Offices. Needless to say, such a persistent "float" is equivalent to an interest-free loan which provides cash for the Federal Government at the expense of the liquidity of the Regional Government. Such a situation should not be permitted to exist over long periods of time in respect of substantial amounts, but should be handled through appropriate adjustment of revenue and loan allocations. Alternatively, interest could be made payable on "float" balances.

(B) Internal Loans. Both the Federal and Regional Governments have the constitutional power to raise loans within Nigeria. However, central raising of internal loans has been judged desirable by all governments. Costly interest rate competition among governments issuing separate securities can thus be avoided; the receipt of loan proceeds need not be tied to the investment community's evaluation of the individual government receiving the loan; and the total amount of government credit outstanding can be controlled centrally.

(a) Development Loans. Since Independence, the amount of long-

term "development" loans to be issued has been decided at annual conferences of the Finance Ministers of the Federation. The total amount of securities to be issued depends on national economic objectives and expectation of public purchases of the securities, as well as the pressures exerted by the various governments to obtain loans. The division of the "development" loans among the governments is a matter of haggling between the representatives of the respective governments. In 1965, guidelines for the future allocation of the loans were agreed upon by the Finance Ministers of the Federation. A normal allocation was agreed to be 50 per cent to the Federal Government, 20 per cent to the North, 15 per cent to the East, 10 per cent to the West, and 5 per cent to the Mid-West. This formula corresponds closely to the actual division of expenditure between the Federal and Regional governments. The relative Regional shares correspond closely to their Distributable Pool shares. The formula was intended to be modified to meet special exigencies of individual governments' financial positions. In fact, in both 1964/5 and 1965/6 the actual allocation differed from the standard set by the Finance Ministers, due to special financial difficulties of the West and Mid-West and the sizeable recurrent surpluses of the North. The actual distribution percentages for 1964/5 and 1965/6 combined were: Federal Government 54 per cent, North 9 per cent, East 14 per cent, West 13 per cent, and Mid-West 9 per cent. Table 5 shows the allocation of Development Loans from 1960/1 to 1965/6.

TABLE 5

DEVELOPMENT LOAN ALLOCATIONS

	1960/1	1961/2	1962/3	1963/4	1964/5	1965/6	Total
Federal Government	£1.7m	£7.0m	£7.0m	£12.0m	£6.9m	£8.7m	£43.3m
Northern Nigeria	6.6	-	3.0	3.0	2.7	-	15.3
Eastern Nigeria	1.7	-	2.0	2.0	2.1	2.1	9.9
Western Nigeria	-	-	3.0	2.0	1.8	2.1	8.9
Mid-Western Nigeria	-	-	-	1.0	1.5	1.1	3.6
TOTALS	£10.0m	L7.0m	£15.0m	£20.0m	£15.0m	£14.0m	£81.0m

Source: Federal Government Accountant-General's Reports.

(b) Treasury Bills. While the allocation of long-term Development Loans has been based on a process of formal consultations among the governments of the Federation, the allocation of short-term Treasury Bill proceeds has remained in practice a Federal Government prerogative. Table 6 shows the allocation of Treasury Bill proceeds. Virtually all of the Treasury Bill proceeds have been retained by the Federal Government (e.g., as of March 31, 1966, 91.9 per cent of the proceeds of the £37m in bills outstanding had been retained by the Federal Government). However, requests from Regional Governments for Treasury Bill proceeds to meet temporary problems were generally promptly fulfilled. Nevertheless, these allocations to the Regions are to be retired when financial conditions permit, rather than being continuously turned over. With the development of a public asset demand for Treasury Bills (and assuming interest rates are not artificially pegged), a substantial amount of Treasury Bills can be and are continuously turned over. The amount of Treasury Bills outstanding has grown each year since their introduction. There would appear no reason why such issues cannot provide general finance for Regional Governments, as they in fact now do for the Federal Government. It is surprising that the reluctance of the Federal Government to make general allocations of Treasury Bill proceeds has not led to more Regional attempts to offer their own issues or to obtain alternative short-term finance as the Northern Nigeria Government has been able to do through its Native Authorities Short-Term Surplus Funds Deposit Account. The centralized issue of government securities has not been interpreted as a restriction against public placement of the

TABLE 6

NET ANNUAL ALLOCATIONS OF TREASURY BILL PROCEEDS

(in £ millions)

	Prior to 1960/1	1960/1	1961/2	1962/3	1963/4	1964/5	1965/6	Total
Federal Government	2.0	9.0	0.2	4.5	5.8	6.8	5.7	34.0
North	-	-	4.0	-3.2	1.2	-0.8	-1.2	-
East	-	-	-	-	0.5	-0.5	-	-
West	-	-	3.0	2.0	0.5	-1.0	-2.5	2.0
Mid-West	-	-	-	-	0.5	0.5	-	1.0
TOTAL	2.0	9.0	7.2	3.3	8.5	5.0	2.0	37.0

Source: Derived from Federal Accountant-General Reports.

Note: Minus sign (-) indicates a net reduction of Treasury Bill borrowings.

securities of quasi-governmental bodies. Examples of such issues are the Broadcasting Company of Northern Nigeria debentures and an insurance company loan to the Northern Nigerian Housing Corporation. Both securities were guaranteed by the Northern Nigeria Government. The main disadvantage to this type of open-ended fund raising by the regions is that the interest rates paid are substantially higher than on the proceeds of the centralized "development" loans of comparable maturity.

(C) External Loans. Item 5 of the Exclusive Legislative List of the Nigerian Constitution gives the Federal Government control over "Borrowings of money outside Nigeria for the purposes of the Federation or any Region, other than borrowing by the Government of a Region for a period not exceeding twelve months on the security of any funds or assets of that government held outside Nigeria." As a result, all Regional applications for external loan assistance, inquiries of prospective foreign lenders, and actual lendings by aid agencies in support of Regional projects must pass through the Federal Government. Consequently, the Federal Government is in an administrative position of considerable influence as to the division of external loan proceeds among the Federal and Regional Governments. The question remains as to what extent and in accordance with what criteria should the Federal Government attempt to distribute loan proceeds. The matter is further complicated by the fact that much aid is tied to the specific projects which a particular lender is willing to finance. Often a lender will be unwilling to change the

projects it is to finance because it is primarily interested in promoting a certain line of exports. In other cases, a lender may, for political reasons, be interested in courting the favor of one or more of the governments of the Federation, for example, Kuwait with respect to Northern Nigeria and Israel with respect to Eastern Nigeria. On the other hand, there are cases where general external loans are made to Nigeria with limited concern on the part of the lender as to their final destination except that they be applied to economically justifiable capital development projects. Since the sum of the projects submitted by the Federation Governments for such loans usually exceeds the loan funds so available, it would seem preferable to reach some agreement on principles for external loan allocations rather than have the Federal Government, due to its central position in the process, remain subject to inevitable charges of hoarding loan funds for its own use or of showing favoritism to certain regions.

Table 7 shows the net sources and distribution of foreign loans to Nigeria. Table 8 gives the foreign grant and loan finance already provided and committed to Nigeria as compared to revised 1962/68 Development Plan expenditures. In the original Plan document, it was estimated that 50 per cent of the finance for the Plan would come from external sources. The undersupply of actual external aid received during the first years of the Plan may be attributed to (1) a lack of well formulated plan projects which could be put forth to aid agencies, (2)

TABLE 7

NET EXTERNAL LOAN ALLOCATIONS

(in £ millions)

Sources	1961/2	1962/3	1963/4	1964/5	1965/6	Total
Funded (International Flotation)	-	-	-5.7	-	-	-5.7
United Kingdom	5.6	1.6	-0.2	2.3	5.3	14.6
United States	-	-	-	0.3	0.3	0.6
IBRD	1.0	-0.2	-0.4	-0.5	-0.4	-0.5
Israel	1.1	1.0	-0.3	-0.1	-0.1	1.6
Italy	-	-	-	1.4	1.8	3.2
Private	0.4	0.9	1.2	2.4	4.6	9.5
Total	8.1	3.3	-5.4	5.8	11.5	23.3
Uses						
Federal Government*	7.3	2.7	-4.9	4.1	7.4	16.6
North	-0.2	-0.1	-	0.1	-0.2	-0.4
East	1.0	0.3	-0.3	0.5	1.4	2.9
West	-	0.4	-0.2	0.8	2.1	3.1
Mid-West	-	-	-	0.3	0.8	1.1
Total	8.1	3.3	-5.4	5.8	11.5	23.3

*Includes statutory corporations.

Note: Minus sign (-) indicates net repayments to lender.

Source: Derived from Federal Accountant-General Reports.

TABLE 8

EXTERNAL FINANCE FOR THE 1962-68 DEVELOPMENT PLAN

	External Finance Received 1962/3 to 1964/5	Additional External Finance Committed For Plan	Total External Finance For Plan	Revised Plan Expenditure Goals	Percentage of Plan Expenditure to be Financed by External Sources
Federal Government*	£26.5m	£100.3m	£126.8m	£521m	24%
North*	0.4	19.7	20.1	102	20%
East	2.3	11.0	13.3	85	16%
West	2.8	8.5	11.3	113	10%
Mid-West	0.0	11.5	11.5	29	40%
Total plan	£32.0m	£151.0m	£183.0m	£850m	21%

*Includes statutory corporations.

delays in processing aid applications by the external aid agencies, and (3) increases in local revenues over early estimates for the Plan.

Control over contractor finance arrangements also remains a concern for the Federal Government. Sources of contractor finance offered to the Regional Governments and their statutory corporations usually require Federal Government guarantees of the repayments of principal and the interest on the credits made available. In order to maintain control over the nation's ability to service its debt, the Federal Government must consider limitations it should place on each Region's contracting of private external finance. In spite of impassioned official declarations against the evils of contractor finance, to date the Federal Government seems to have avoided the allocation problem by approving virtually all contractor finance guarantees requested by its own Ministries and by the Regional Governments.

A final area of concern with respect to external borrowing arises from the holding of foreign assets by regional governments, their statutory corporations and local government bodies. These external reserves were almost entirely accumulated before Independence. Nigeria's international liquidity position would be more secure if its public foreign assets were subject to central ownership and/or management. The alternative to continued regional holdings of foreign assets would be their exchange by the Central Bank for Nigerian Government securities. Several factors may have led to regional reluctance to adopt this course of action:

(i) Higher short-term rates in the United Kingdom than in Nigeria;

(ii) The Crown Agents have acted as the overseas procurement agent for the Nigerian governments. Frequently the governments are indebted to the Crown Agents on current account. Such indebtedness is presently covered by credit provided by the Crown Agents on the security of the Regional Government holdings of foreign securities which are kept with the Crown Agents. The Federal Government or Central Bank would have to assist in guaranteeing such indebtedness if foreign assets were all repatriated.

(iii) Uncertainty as to the ability of the Regional Governments to liquidate reserve holdings when desired if the reserves are held in Nigerian securities which have a thin market as contrasted with the presently held foreign securities which can easily be sold on the broad London market;

(iv) The desire of the Regional Governments that the Federal Government assure the Regions that repatriated funds invested in Nigerian security issues whose proceeds will then be lent to the government which is repatriating the foreign assets.

There has been considerable success in the policy of reducing the foreign asset holdings of the public sector outside of the Central Bank since Independence. Table 9 below shows the reduction in holdings of foreign assets by the governments of the Federation and their statutory corporations. If the problems mentioned above are solved, independent holdings of external reserves might become minimal.

TABLE 9

EXTERNAL RESERVES

(as of March 31st)

	1961	1962	1963	1964	1965
Regional Governments	£21m	£20m	£ 6m	£ 7m	£ 9m
Federal Government	31	30	27	10	
Statutory Corporations	8	-1	0	4	2
TOTALS	£60m	£49m	£33m	£21m	£11m

However, it should be remembered that the reduction in the external reserves shown above reflects not only shifting from foreign to Nigerian asset holdings, but also the use of reserves to finance expenditure.

(5) The 1964 Fiscal Review Commission

Section 164 of the Constitution of the Federation of Nigeria provides that the Governments of the Federation, acting after consultation with the Governments of the Regions shall from time to time appoint a Commission to review and make recommendations with respect to the provisions of the sections of the Constitution dealing with the composition and regional distribution of the Distributable Pool. Accordingly, in 1964 Mr. K. J. Binns, a high Australian tax official, was appointed sole commissioner to make such a review, the first since the Raisman Commission.

The Commission's scope for recommendations were quite limited. Section 164 of the Constitution calls for recommendations as to the percentages of general import duties and mining rents and royalties to be allocated to the Distributable Pool and to the division of the Distributable Pool among the regions. In making recommendations, the Commission was to consider the experience of all five governments in working the present system, the creation of the Mid-West region, all the actual and

potential sources of revenue and other receipts available to all five governments, and the legitimate requirements and responsibilities of each of the five governments. Upon the commencement of the Commission's sittings, the Federal Government added to the terms of reference that the Commission should consider "the financial implications of the non-availability of promised foreign aid for university education and other unfulfilled pledges." The remainder of the terms of reference had been agreed to by the participating Regional Governments. Consequently, the Regional Governments were not pleased with the Federal Government's insertion of this item in the terms of reference without appropriate time for joint consultation.

The Commission discussed the position of each of the Federation Governments with respect to allocation changes with leading politicians and civil servants and obtained position papers from each government. The Commission also requested certain specific statistics from each government. The Commission experienced considerable difficulty in placing each government's financial statistics in a comparable format. The differential importance of local government bodies in the Regions added to the difficulties of comparison. In its report, the Commission urged that before another Fiscal Review took place, that the governments arrange for a common classification of revenues and expenditures (at national, regional and local government levels) and for periodic reporting of this data to a central agency.

potential source of [illegible]

governments, and the local [illegible]

Each of the five governments [illegible]

utilities, the Federal Government [illegible]

the Conservation [illegible]

available [illegible]

unification [illegible]

spread [illegible]

Regional [illegible]

issue [illegible]

time [illegible]

The [illegible]

Government [illegible]

[illegible]

The [illegible]

[illegible]

[illegible]

[illegible]

that [illegible]

[illegible]

[illegible]

[illegible]

The terms of reference of the Commission were interpreted differently by the participating governments. The Federal Government maintained that the Commission was strictly limited to changing the proportions of the Distributable Pool given to each region and the shares of mining and general import revenue allocated to the Distributable Pool. The views of the regions ranged among: (i) that the Commission would not be limited to only those adjustments if the considerations required in the terms of reference led such adjustments to be insufficient to achieve a desirable change in the revenue allocation among the governments in accordance with the considerations listed in the terms of reference, (ii) that the possible inclusion or exclusion of all revenue items in the Distributable Pool was subject to review by the Commission, and (iii) that a thorough review of the revenue allocation and responsibility systems was necessary.

Views of the regions as to the principles upon which the revenue allocation should be made varied directly with the financial interests of the governments involved. The experience of recent years led governments to change positions drastically from presentations before previous Fiscal Review Commissions. Attitudes toward regional autonomy in revenue allocation by the regions often differed substantially from the viewpoints of the political parties in control of the regional governments with respect to the question of regional autonomy in general. That this dichotomy could occur was the result of (i) the drawing up and

presentation of regional viewpoints largely being done by civil servants with little direction from the politicians, and (ii) the judgment of some of the leading politicians to regard the fiscal review as a technical rather than a political matter. The latter course of action was necessary to keep the fiscal review from becoming a crisis issue, as it has been in numerous other federations. Surely the fragile unity of the Nigerian Federation during the time of the review being considered in 1964 and 1965 might not have been able to withstand a further crisis additional to the labor, census, and election crises it was then attempting to weather.

The North, which is able to provide far less in terms of expenditure per capita than the other regions, pleaded its case for additional revenue allocations on the grounds of need and the establishment of minimum national standards in health, education, etc. Nevertheless, the North did not advocate the total elimination of derivation as a principle in revenue allocation. It did, however, attempt to stress the difference between derivation where it applied to tax incidence, e.g., the personal income tax, and where it was not related to incidence but to property rights, e.g., mining revenue. The West was concerned with its relative economic stagnation since the previous Fiscal Review Commission which cut its revenue allocation sharply, due to its relative prosperity. The West maintained that it should be allowed to expand its public expenditure at a rate comparable to the other regions. The

unfavorable recommendations with respect to the West of the Raisman Fiscal Commission, it was argued, had been instrumental in the relative stagnation of government economic development programs in the West. The Mid-West pressed its need for funds to finance its new regional administration and new capital city. Moreover, it was argued that these needs could be met either by a special grant from the Federal Government or by greater dependence on the principle of derivation (which would return a a greater part of the burgeoning oil revenue to the Mid-West). The East was most extreme in its call for almost complete reversion to the principle of derivation in revenue allocation. Again, rapidly expanding revenues through both oil royalties and leases and the profits tax prompted this viewpoint and its advocacy of the allocation of companies' income tax to the region of origin. A jibe was placed at the Federal census figures and the North by the proposal that any resulting short fall in Federal Government revenue be met by a uniform head tax levied against the Regions. The Federal Government itself stressed its increasing responsibilities vis-a-vis the regional government with respect to external affairs, defense, and higher education in presenting its case for a reduction in the regional share of general import duties and mining revenues. It also stressed the need to provide the central government with sufficient financial resources to assure its stability. The Federal Government took no position on the allocation of revenues among the regions. The East and the West both claimed they had

demonstrated greater efforts in tax collection than the North and should not be penalized in the revenue allocation for this effort. The accuracy of this issue was clouded by the fact that a vast majority of personal tax revenue in the North is collected and remains at the local government level rather than being shown in the regional accounts as in the other regions. Similarly, the Northern Nigeria Government's need for funds on an expenditure per capita basis would not be as great as the other regions since more services are performed at the local government level in the North than in the other regions.

The recommendations made by the Fiscal Review Commissioner displayed his political acumen. The goal of national unity was placed foremost. The net effect of the recommendations to be described in greater detail below were to give certain Regions financial gains but not at the expense of the other Regions but at that of the Federal Government. As a result, the usual Regional bias of Nigerian political issues could not exercise its accustomed weight. Regions were not pitted one against another. The recommendations gave substantial gains to the North, West, and Mid-West with the Federal Government taking the offsetting loss and the net position of the East remaining virtually unaffected. To amend the Nigerian Constitution, the Federal Parliament and three of the four Regional Legislatures need to approve the proposed amendments. The Commission's recommendations thus insured that if the Federal Government agreed to the reallocation, the East could not block

the constitutional amendments needed to bring the reallocation into effect, since the other three regions would almost certainly support the proposed reallocation.

The Fiscal Review Commission was of the opinion that changing the Regional shares of the Distributable Pool and the amounts of general import and mining revenue included in Distributable Pool was not the most satisfactory means of increasing regional financial resources. The difficulties described previously concerning the reporting of information concerning projections of Federal revenue to be distributed to the regions, the high variation in such revenue sources, and the problems in the payment procedures cause the regions to face great uncertainty in their budgeting and as a result cannot make the most effective use of all the funds they do receive. Consequently, the Commissioner preferred that the Regions be paid block grants to increase their revenues and reduce the uncertainty involved in their budgeting processes. He noted, however, that a similar change could also be worked out by altering the Distributable Pool formulae.

The Commissioner's recommendation to distribute the excise duty on motor spirit and diesel oil according to derivation stirred little controversy since it was the same as the principle in use for the allocation of motor spirit and diesel oil import duties which the new excise duties replaced. Below are given summaries of each of the three alternative sets of the Fiscal Review Commission's recommendations:

Alternative I

(1) General excise duties to be retained wholly by the Federal Government;

(2) 30 per cent of general import and mining revenue to be paid to the Distributable Pool;

(3) Distributable Pool shares of 40 per cent North, 31 per cent East, 21 per cent West and 8 per cent Mid-West; and

(4) Block grants paid by the Federal Government to the Regions as follows:

North	£2.0m
East	£0.8m
West	£0.6m
Mid-West	£0.35m

Alternative II

(1) 30 per cent of general import duties, mining revenue and general excise duties to be paid to the Distributable Pool;

(2) Distributable Pool shares of 40 per cent North, 31 per cent East, 21 per cent West, and 8 per cent Mid-West; and

(3) Block grants to be paid by the Federal Government as follows:

North	£1.7m
East	£0.6m
West	£0.4m
Mid-West	£0.3m

Alternative III

(1) 35 per cent of general import duties and mining revenue to be paid to the Distributable Pool;

(2) Distributable Pool shares of 42 per cent North, 30 per cent East, 20 per cent West, and 8 per cent Mid-West; and

(3) No specification about the disposition of general excise duties; in the calculations below, we assume that all of these duties revert to the Federal Government.

The Commission made its recommendations in July, 1964, with the expectation that they would be in force for the financial years 1965/6 to 1968/9. However, for political and administrative reasons, the report of the Commission was not considered until mid-1965. To determine the expected net effect of the various recommendations, it is necessary to make estimates of the relevant revenue sources as has been done below:

Revenue Source	1963/4	1964/5	Estimate 1965/6	Estimate 1966/7
General Import	£47.6m	£65.3m	£65.0m	£72.0m
General Excise	0.3	2.3	4.6	8.5
Mining	6.5	10.3	12.7	17.0

The various alternatives would thus have the following financial effects on the budgets of the Federation Governments using the 1966/7 estimates of revenues:

Alternative I	Federal Government	North	East	West	Mid-West
(1)	+ £2.55m	-£2.55m	-£0.83m	-£0.48m	-£0.16m
(2)	-	-	-	-	-
(3)	-	-0.56	-0.44	+0.55	+0.45
(4)	-3.75	+2.00	+0.80	+0.60	+0.35
TOTAL	- £1.20m	+£0.37m	-£0.47m	+£0.67m	+£0.64m

Alternative II	Federal Government	North	East	West	Mid-West
(1)	-	-	-	-	-
(2)	-	-0.56	-0.44	+0.55	+0.45
(3)	-3.00	+1.70	+0.60	+0.40	+0.30
TOTAL	- £3.00m	+£1.14m	+£0.16m	+£0.95m	+£0.75m

Alternative III	Federal Government	North	East	West	Mid-West
(1)	-4.45	+1.87	+1.34	+0.89	+0.36
(2)	-	-0.03	-0.82	+0.33	+0.52
(3)	+2.55	-1.07	-0.83	-0.48	-0.16
TOTAL	-£1.90m	+£0.77m	-£0.31m	+£0.74m	+£0.72m

After the Fiscal Review Commission Report was submitted to the governments of the Federation, the National Economic Council met and

approved Alternative III of the recommendations. The necessary Constitutional amendments were approved by all five Federation Governments, the last approval being that of the Federal Government which was given just before the January, 1966 coup. The amendments were implemented under the Ironsi regime. Difficulties of interpretation did arise, however, over the disposition of general excise revenue whose ad hoc allocation to the Distributable Pool was ceased and over the commencement date of the new allocation system which in the end was delayed until April 1, 1966, rather than having been made retroactive to April 1, 1965.

(6) Expenditure

Interregional financial relationships are determined not only by the allocation of finance sources, but also by the division of responsibility for and pattern of expenditures. In addition, the allocation of finance sources will not always depend on abstract criteria such as need and derivation, but also on the absence or presence of "worthwhile" projects on the drawing boards of each government unable to proceed for lack of funds. In this context, expenditures may be discussed under four headings: (i) Regional vs. Federal jurisdication, (ii) Regional patterns of expenditure, (iii) distribution of Federal recurrent expenditure and (iv) distribution of Federal capital expenditure.

(A) Jurisdiction. The Exclusive and Concurrent Legislative Lists of the Nigerian Constitution define what areas are subject to Federal action alone, concurrent Federal and Regional activity, or are residual to the Regions. Consequently, jurisdictional disputes over expenditure responsibilities would arise from (a) attempts to amend the Legislative Lists, (b) problems in interpreting the scope of items included in the Legislative Lists, and (c) determining a desirable balance of Federal and Regional expenditure and responsibility in areas in which both are active.

Three cases which may be used as examples of the Regions attempting to get the Federal Government to accept greater expenditure responsibilities for items appearing on the Concurrent Legislative Lists are: Universities, Agricultural Research, and Native Authority Prisons in Northern Nigeria.

A National Universities Commission was established to make recommendations concerning the administration and financing of the five Nigerian universities. Federal Government action subsequent to the submission of the report led to a system of annual block grants from the Nigerian Governments to finance the universities. In the case of the "national" universities of Ibadan and Lagos, 100 per cent of the block grant was to be furnished by the Federal Government. The block grants to the "regional" universities at Zaria, Nsukka, and Ife were to be comprised normally of a 30 per cent subvention from the Federal Government

and a 70 per cent subvention from the government of the region where the university was located. Because of the remaining large numbers of non-Northern Nigerian students at Ahmadu Bello University at Zaria, the Federal Government agreed to pay on a temporary basis 50 per cent of the block grant to that school. The Regional Governments were unhappy in that the Federal Government subventions were less than those recommended by the National Universities Commissions. The Federal Government maintained that its responsibilities for total support of the universities at Ibadon and Lagos made it financially impossible to make grants to the regional universities of the size proposed by the National Universities Commission.

The University at Zaria has associated with it Institutes of Agricultural Research and Administration. The University at Ife also has an Institute of Administration. In Eastern Nigeria, the Institute of Administration is run as a part of Regional Government. Research on the main export crops of the East and West was done by the Nigerian truncations of the former West Africa Cocoa and Palm Products Research Institute, which were primarily Federal responsibilities but which have also received varying subventions from all the Regional Governments. Objections by the Federal Government to inclusion of the institutes located at the regional universities in the subventions proposed by the National Universities Commission centered around (1) the large number of nondegree courses given by the institutes, (2) the primary objective of

research rather than training characteristic of the institutes of agricultural research, and (3) the lack of uniformity in including the institutes in the three regional universities. The primary outstanding concern on the issue remains the standardization of Federal Government financial support for research on export products, since the Federal Government provides support for cocoa and palm products research but does not do so for the export crops of the North. "Scientific Research" is a subject on the Concurrent Legislative List of the Constitution.

In our discussion of Federal Government grants to the Regions, the controversy over Federal financial support of Native Authority Prisons expenditure in the North was mentioned. The two sides of the argument demand, on the one hand, uniform Federal control over prisons in all Regions and, on the other hand, uniform Federal financial support of prisons in all Regions. It would seem that the impasse cannot be solved satisfactorily without standardized Federal action on both counts.

A final area where Federal and Regional expenditure responsibilities become clouded is in meeting natural or man-made disasters. Federal assistance has been made available in the case of disastrous floods in the Western Region. Large-scale rioting in 1966 with subsequent refugee movements led to Federal assistance to the Regions to alleviate the financial burden imposed on the Regional Governments, especially that of the East. It would seem that Federal Government financial intervention in such disasters must rest with its ad hoc judgment that the administrative or financial scope of the disaster is beyond the ability of the Regional Government(s) to handle.

(B) Regional Expenditure. By the nature of the Constitutional division of responsibilities between the Federal and Regional Governments, it can be expected that Regional Governments together with their local government bodies will perform roughly the same services and activities in all regions. An aspect of public expenditure relating to this and the following two subsections is the economic effect of expenditure relating to this and the following two subsections is the economic effect of expenditure due to its geographical distribution. It may be safe to assume each Regional Government spends a similar proportion of its expenditure within its own territorial area. Several factors do indicate, however, that a larger percentage of the expenditure of Northern Nigeria may be of direct benefit to other regions for the following reasons:

(i) the North must import a larger share of the manufactured products it uses from other regions, due to the relative lack of industry in the North;

(ii) the North must use more non-Northern workers in its government and on its capital development projects than the other regions, due to its lack of skilled labor;

(iii) the North must transport its sea imports across other regions while other regions need not do so.

An element of the expenditure allocation among the regions results from the setting of Development Plan expenditure targets or totals for

each government. The 1962/8 Development Programme for Nigeria was approved at the highest political level by the National Economic Council. Each government had a capital expenditure plan approved for it of a given total money amount. Each plan was comprised of projects with estimated costs. Where project detail was not yet available, provisional sectoral allocations were made. There is no clear explanation as to how the original allocations of capital expenditure shown in column one of Table 10 were made. In addition, the planning exercises gave no specification as to how funds would be channeled to the various governments to fulfill the Development Plan capital expenditure allocations, although it did estimate the sources of funds through the established channels. Neither were there restrictions placed on the growth of recurrent expenditure for each government. Nor has there been any central review of switches in or augmentations to Development Plan expenditure by any of the individual governments to the Plan. Column three of Table 10 shows the revised plan expenditure totals as of mid-1965. Noteworthy is the greater than 50 per cent increase in the size of the combined West/Mid-West plan since the conception of the Plan.

Table 10 below shows the original plan expenditure approved by the National Economic Council for each of the Federation governments, the actual expenditure of the first three years of the plan period, and revised estimates of total plan expenditure.

TABLE 10

1962/8 DEVELOPMENT PROGRAMME EXPENDITURE

Government	Original Plan Expenditure	Actual Expenditure 1962/3 - 1964/5	Revised Plan Expenditure	(2) ÷ (3) Completion of Revised Plan	(2) ÷ (1) Completion of Original Plan
	(1)	(2)	(3)	(4)	(5)
Federal	Ł237m	Ł82m	Ł324m	26%	35%
Stat. Corps.	165	68	197	35%	41%
North*	89	26	102	26%	29%
East	68	31	85	37%	46%
West	90	26	113	23%	29%
Mid-West	-	2	29	7%	-

*Includes statutory corporations.

The significance of the Development Plan in resource allocation among the Federation governments is three-fold: (1) the Plan's flexibility--there is no assurance that resources will be made available to allow any government to meet its plan goals fully or proportionately together with the other governments, (2) the Plan's lack of legal force --there are no legal restrictions which prevent unilateral alterations of its plan expenditure goals by any government, and (3) on the positive side--the informal influence of the Plan whereby the gap between Plan goals and estimated sources of finance for each government may be very important in leading new external aid sources to direct the flow of their aid or in influencing the allocation of those local funds sources that are not fixed by the Constitution. An unusually large uncovered financing gap for one government may move external aid sources to fund the gap more readily than for governments whose gap is smaller. In this manner, Development Plan expenditure goals may be of indirect influence in determining the allocation of finance sources.

(C) Federal Recurrent Expenditure. It is unlikely that the geographical distribution of Federal Government recurrent expenditure can be altered rapidly to shift its impact on the economies of the four regions. Much of the expenditure relates to staff and facilities which are fixed in location or which must for one reason or another be located in the area around the national capital, Lagos, or at each of the regional centers. Other than the directing to desired regions of specific grants,

the scope for altering the geographical pattern of Federal Government recurrent expenditures is rather limited.

(D) Federal Capital Expenditure. Through the distribution of its capital expenditure, the Federal Government can greatly stimulate the economies of favored regions. Unfortunately, Federal capital expenditure is not listed in a manner conducive to a reliable Regional breakdown. Almost 45 per cent (by value) of the Plan projects cannot be identified with any Region or Regions from the published Plan documents alone. Frequently Plan projects include activities of a similar nature throughout the nation or refer to a single nationwide objective included as a project. In many other cases, projects have activity in two regions which are identified; but any breakdown of the project between those regions is conjecture. Furthermore, although projects are physically located in one region, their benefits, origin of components, and origin of labor may extend to other regions in large or small part.

Consequently, this study has not been able to delve deeply enough into Federal Government capital expenditure data to make any informed opinion as to its regional impact. However, a cursory examination of the Plan indicates that (1) expenditure in the Federal Capital Territory of Lagos may be as great as or greater than in any one of the Southern regions; (2) the Niger Dam project in the North gives that region by far the greatest amount of expenditure; (3) if it were not for the Niger Dam project, which will benefit the whole country, the distribution of Plan

expenditure might not differ far from the population distribution; and (4) if any region has suffered from a dearth of Federal development projects, it is the West.

(7) Asset Holdings

The Regional and Federal Governments may hold a varying portfolio of assets, ranging among currency, current balances due from other governments or statutory corporations, bank deposits, Treasury Bills, Nigerian Development Stocks, balances with the Crown Agents, foreign securities, and outstanding loans or investments made locally. These assets embrace a wide range of yield, risk, and liquidity characteristics. The asset reserve position of a government must be considered in any exercise allocating finance resources. Accumulation of large balances may indicate little concern with increasing capital development expenditures, the incapacity to spend or certain precautionary motives. Accumulation of surpluses invested in overseas securities implies that a revenue allocation procedure is a one-shot process in that no other Nigerian government gets an opportunity to use funds which are surpluses to the recipient. In contrast, placement of surplus funds in Nigerian government securities may enable a second government who needs the funds to use them by increasing the demand for such securities. Such investment of surplus funds enables greater issues of Nigerian securities

whose proceeds can be directed to more needy governments. This procedure may not be as desirable in the budgeting procedure as an original allocation which is in line with spending capacities or desires, since the secondary recipient cannot be very sure in his original budgeting that such proceeds will become available.

Table 11 gives the asset-holding position of the Nigerian governments as of March 31, 1965. It should be noted that the cash requirements of the various governments may differ due to the volume of transactions, geographical dispersion of Treasuries, etc. The investment demands of the Regional and Federal Governments will also differ in that the latter has direct access to the printing presses of the Central Bank in a financial emergency, while the Regions are one step removed and cannot be sure of what relief they might receive while under duress. Consequently, the relatively large security investments of the Regions as compared with the Federal Government should not be thought strange.

TABLE 11

GOVERNMENT ASSET HOLDINGS AS OF MARCH 31, 1965

	Federal Government	North	East	West	Mid-West
Cash*	£ 14.4m	£5.2m	£1.9m	£2.4m	£1.7m
Investments	1.0	4.6	4.6	2.0	-
TOTAL	15.4	9.8	6.5	4.4	1.7
Other Loans and Investments**	91.6	***	6.7	27.1	0.1

*Includes Treasury Bills.
**Face value; real worth not known.
***Not available but relatively small.

Consideration of a government's asset position might better be made on a net basis. Exactly comparable public debt statistics were not found, but the following give an indication of the relative public debts of the Nigerian Governments:

	Public Debt	Sinking Funds	Net Debt	
Federal Government	£97.6m	n.a.	n.a.	as of March 31, 1964 net of regional debt
North	26.6	2.2	24.4	as of March 31, 1965
East	12.4	1.1	11.3	"
West	10.3	0.7	9.6	"
Mid-West	3.5	n.a.	n.a.	"

III. The Impact of the Nigerian Financial Arrangements on Government Finances

Tables 12-16 show the funds sources and uses for the Federal Government of Nigeria and the four Regional Governments in the years since Independence. The statistics used have been derived from the Accountant-General's reports, Estimates and Gazettes of the respective governments. However, the classification is the author's own and others may disagree with this interpretation of that data.

TABLE 12

FINANCES OF THE FEDERAL GOVERNMENT OF NIGERIA

(in £ millions)

	1960/1	1961/2	1962/3	1963/4	1964/5	1965/6	Estimate 1966/7
Sources							
Federally collected revenue[a]	112.4	113.2	114.1	122.0	146.4	156.9	180.7
Internal loans[b]	10.0	7.0	15.0	20.0	17.1	14.1	15.1
External grants	1.0	0.1	0.5	0.3	-0.2	0.5	1.3
External loans	10.8	9.2	6.4	0.9	3.8	20.1	35.0
GROSS TOTAL SOURCES	134.2	129.5	136.0	143.2	167.1	191.6	232.1
Deduct Payments to Regions							
Grants[g]	-	0.1	0.2	4.8	0.9[f]	-[f]	2.6
Loans[b]	9.6	2.5	9.3	8.2	11.8[f]	14.0[f]	15.8
Derivation allocations[c]	28.6	32.0	31.4	33.1	39.5		46.9
						65.6	
Distributable Pool allocations	12.8	15.4	15.8	15.9	24.3		31.2
TOTAL DEDUCTIONS	51.0	50.0	56.7	62.0	76.5	79.6	96.5
NET TOTAL SOURCES	83.2	79.5	79.3	81.2	90.6	112.0	135.6
Uses							
1. Recurrent expenditure[a,h]	45.7	52.0	58.4	69.8	71.6	78.6	95.0
2. Capital expenditure[c]	38.5	29.4	31.7	32.0	34.5	42.1	78.9
3. Reserve additions or Deductions (-)	-1.0	-1.9	-10.8	-20.6	-15.5	-8.7	-38.3
TOTAL USES	83.2	79.5	79.3	81.2	90.6	112.0	135.6

a. Excludes interest and repayments on loans held by regional governments.
b. Excludes short-term loans, e.g., Treasury Bills.
c. Includes both statutory and nonstatutory allocations.
d. Includes ad hoc allocations of general excise duties by the Distributable Pool Formulae.
e. Does not include grants and loans to regions.
f. Includes only external grants or loans due to lack of data concerning disbursements from individual capital expenditure subheads.
g. Does not include recurrent budget grants to regions.
h. Does not include transfers to the Capital Development Fund.

TABLE 13

FINANCES OF THE GOVERNMENT OF NORTHERN NIGERIA

(in £ millions)

	1960/1	1961/2	1962/3	1963/4	1964/5	1965/6	Estimate 1966/7
Sources:							
1. Regional revenues	3.4	4.7	6.4	6.9	8.4	7.7	9.1
2. Marketing Board	1.2	0.8	0.5	0.6	0.3	0.7	5.4
3. Derivation allocations	8.4	10.1	9.4	11.2	14.3	23.9	16.5
4. Distributable Pool Allocations	5.3	5.8	7.4	6.7	10.3		13.1
5. Fed. Govt. Grants and Reimbursements	0.3	0.3	0.4	2.1	1.7	2.0	1.7
6. Fed. Govt. Loans[a]	6.6	-	3.0	3.0	4.0	-	-
7. External Grants and Reimbursements	0.4	0.2	0.4	0.4	0.4	0.4	1.6
8. External Loans	2.0	-	-	0.1	0.4	0.1	5.5
TOTAL SOURCES	27.6	21.9	27.5	31.0	39.8	34.8	52.9
Uses:							
1. Recurrent expenditure[b,c]	17.5	20.0	21.7	23.3	25.4	28.2	32.3
2. Capital expenditure[b]	6.2	8.2	6.6	6.8	8.7	9.2	32.3
3. Reserve additions or deductions (-)	3.9	-6.3	-0.8	0.9	5.7	-2.5	0.4
TOTAL USES	27.6	21.9	27.5	31.0	39.0	34.8	52.9

a. Does not include Treasury Bill onlendings.

b. For 1960/1 to 1963/4, Ministry of Works Staff Charges which appeared in the Capital Budget are included in Recurrent Expenditure in conformity with the practice of the other Governments.

c. Does not include transfers to the Capital Development Fund.

TABLE 14

FINANCES OF THE GOVERNMENT OF EASTERN NIGERIA

(in £ millions)

	1960/1	1961/2	1962/3	1963/4	1964/5	1965/6	Estimate 1966/7
Sources							
1. Regional revenues	6.2	7.4	7.7	8.2	8.8	10.3	8.0
2. Marketing Board	0.1	4.2	2.2	3.2	2.2	2.2	2.8
3. Derivation allocations[b]	6.5	9.6	8.9	8.6	10.1	20.2	13.1
4. Distributable Pool allocations	4.1	4.5	5.1	5.1	7.9		9.3
5. Fed. Govt. Grants and Reimbursements	0.2	0.2	-	1.3	0.1	0.8	0.6
6. Fed. Govt. Loans[a]	-	1.7	2.0	-	2.2	2.1	2.1
7. External Grants and Reimbursements	0.7	0.2	0.1	0.2	-	0.1	0.9
8. External Loans	1.0	1.1	0.5	-	1.0	0.5	3.5
TOTAL SOURCES	18.8	28.9	26.5	26.6	32.3	36.2	40.3
Uses							
1. Recurrent expenditure[c]	15.3	16.8	17.7	19.3	24.1	24.9	29.6
2. Capital expenditure	4.7	9.0	9.9	10.0	10.7	9.6	19.3
3. Reserve additions or deductions (-)	-1.2	3.1	-1.1	-2.7	-2.5	1.7	-8.6
TOTAL USES	18.8	28.9	26.5	26.6	32.3	36.2	40.3

a. Does not include Treasury Bills onlendings.

b. Includes premia on oil leases.

c. Does not include transfers to the Capital Development Fund.

TABLE 15

FINANCES OF THE GOVERNMENT OF WESTERN NIGERIA

(in £ millions)

	1960/1	1961/2	1962/3	1963/4	1964/5	Rev.Est. 1965/6	Estimate 1966/7
Sources							
1.Regional revenues	4.5	4.9	7.7	6.0	6.7	7.1	6.9
2.Marketing Board	12.9	-2.8	9.2	2.6	4.1	2.6	4.2
3.Derivation allocations	12.8	13.1	12.9	10.8	10.0	9.8	10.5
4.Distributable Pool allocations	3.2	3.3	4.0	3.3	4.7	5.4	6.2
5.Fed. Govt. Grants and Reimbursements	0.2	0.2	0.1	0.7	0.5	1.1	0.9
6.Fed. Govt. Loans[b]	-	-	3.0	2.0	1.8	1.9	1.5
7.External Grants and Reimbursements	0.3	0.1	0.1	0.6	0.5	0.3	1.1
8.External Loans	-	-	0.5	0.4	0.5	2.5	5.5
TOTAL SOURCES	33.9	18.8	37.5	26.4	28.8	30.7	36.8
Uses							
1.Recurrent expenditures[c]	21.1	20.1	20.4	18.2	20.2	19.9	21.5
2.Capital expenditures	13.7	13.3	14.4	9.7	8.9	9.8	17.9
3.Reserve additions or deductions	-0.9	-14.6	2.7	-1.5	-0.3	1.0	-2.6
TOTAL USES	33.9	18.8	37.5	26.4	28.8	30.7	36.8

a. The Mid-West Region separated from the West on October 1, 1963.

b. Does not include Treasury Bills onlendings.

c. Does not include transfers to the Capital Development Fund.

TABLE 16

FINANCES OF THE GOVERNMENT OF MIDWESTERN NIGERIA

(in £ millions)

	1963/4[a]	1964/5	Revised Estimate 1965/6	Estimate 1966/7
Sources				
1. Regional Revenues	0.6	1.7	1.5	2.0
2. Marketing Board	-	0.3	0.2	0.4
3. Derivation allocations	2.5	4.9	6.1	7.1
4. Distributable Pool allocations	0.7	1.5	2.2	2.5
5. Federal Government Grants and Reimbursements	-	-	0.2	0.2
6. Federal Government Loans[b]	1.0	1.5	1.1	0.9
7. External Grants and Reimbursements	-	-	-	-
8. External Loans	-	-	2.0	3.1
TOTAL SOURCES	4.8	9.9	13.3	16.2
Uses				
1. Recurrent expenditure	3.4	6.9	7.8[c]	8.4
2. Capital expenditure	-	1.9	3.2	6.5
3. Reserve additions or deductions (-)	1.4	1.1	2.3	1.3
TOTAL USES	4.8	9.9	13.3	16.2

a. The Mid-West separated from the Western Region as of October 1, 1963.

b. Does not include Treasury Bill onlendings.

c. Original estimate.

An indicator of the relative ability of each government to expand its activities would be total expenditure growth. Certain funds sources are quite erratic, thus presenting a base year statistical problem if revenue sources were used instead; Table 17 below shows the absolute and relative growth of expenditure for all governments.

TABLE 17

GOVERNMENT EXPENDITURE

	1960/1	1961/2	1962/3	1963/4	1964/5	1965/6
North: Total	£23.7m	£28.2m	£28.3m	£30.1m	£34.1m	£37.4m
1960/1=100	100	118	119	127	144	157
East: Total	20.0	25.8	27.6	29.3	34.8	34.5
1960/1=100	100	129	138	146	174	172
West & Mid-West: Total	34.8	33.4	34.8	31.3	37.9	40.7[a]
1960/1=100	100	96	100	90	109	117
Federal: Total	74.2	81.4	90.1	101.8	106.1	120.7
1960/1=100	100	110	121	137	143	163

a. Estimate.

The table above shown that since Independence, total expenditure has grown similarly for all governments except that of the former Western Region. The particular lack of progress on behalf of the combined West and Mid-West Regions may be attributed to the spectacular price position of its cocoa crop at Independence and its subsequent decline and the political unrest in the Region.

The ability of each government to finance its expenditure from regionally derived sources is shown in Table 18. For the regions, the deficit is calculated by taking the difference between sources items 1-3 and uses items 1-2 from Tables 12-16. For the Federal Government the deficit is calculated by taking Federally Collected Revenue minus Derivation and Distributable Pool Allocations less Total Expenditure. During the period from 1960/1 to 1964/5, regionally derived revenues financed 60 per cent of the North's expenditure, 68 per cent of the East's, and 70 per cent of the combined West - Mid-West expenditure. This would support the contention that revenue allocated by need allows the North to spend more than would be possible based on derivation alone. However, the amount of additional expenditures so made possible would appear to be quite small; and it would seem that in recent years this differential has been disappearing, possibly due to the North, which is weak in trained manpower, being unable to increase its capital expenditure rapidly.

When Distributable Pool allocations are included in revenue, the deficits appear as in Table 19 below.

For the six-year period from 1960/1 to 1965/6, the Nigerian governments were able to finance the following percentages of their total expenditure from revenues of Regional derivation and Distributable Pool allocations: East 92 per cent, North 87 per cent, West - Mid-West 85 per cent and Federal Government 78 per cent. The Distributable Pool receipts

TABLE 18

GOVERNMENT BUDGET DEFICITS BASED ON LOCALLY DERIVED REVENUE

(in £ millions)

	1960/1	1961/2	1962/3	1963/4	1964/5	1965/6
Federal	3.2	15.6	23.2	28.8	24.5	29.4
North	10.7	12.6	12.0	11.4	11.1	n.a.
East	7.2	4.6	8.8	9.3	13.7	n.a.
West	4.6	18.2	5.0	8.5	8.3	10.2
Mid-West	-	-	-	0.3	1.9	3.2

TABLE 19

GOVERNMENT BUDGET DEFICITS AFTER DISTRIBUTABLE POOL ALLOCATIONS

(in £ millions)

	1960/1	1961/2	1962/3	1963/4	1964/5	1965/6
Federal	3.2	15.6	23.2	28.8	24.5	29.4
North	5.4	6.8	4.6	4.7	0.8	1.8
East	3.1	0.1	3.7	4.2	0.3	2.1
West	1.4	14.9	1.5	5.2	3.6	4.8[a]
Mid-West	-	-	-	s0.4	0.4	1.0[a]

a. Revised estimate.

s. Indicates surplus.

of the Regions were the following percentages of Regionally derived revenues for the 1960/1 to 1964/5 period: North 41 per cent, East 28 per cent, and West - Mid-West 16 per cent. It must be remembered here that if local government revenues other than grants from the Regions were included, that the differences among Regions would be substantially lessened due to the relatively large local government revenues of the North.

At this point, we must consider the question of what can be usefully concluded from the foregoing mass of data about the Nigerian financial system. The author's conclusions are listed below.

(1) All regions have made steady progress with the revenues they collect since Independence. The relative Regional efforts to collect revenue cannot be compared without inclusion of local government revenues as well.

(2) Marketing Boards have been significant, although not increasing sources of funds for the Regions. The North for a combination of political, economic, and administrative reasons has thus far lagged behind the other regions in tapping this source of finance.[8]

(3) The Distributable Pool established by the Raisman Fiscal Review Commission has, by using criteria other than derivation, allowed

[8]It should be noted that the large £4.7m loan planned for 1966/7 from the Northern Nigeria Marketing Board to the Northern Nigeria Government is the result of the repatriation of the Board's overseas assets rather than an allocation from current operations.

the North to finance perhaps 10 per cent more expenditure and the West - Mid-West perhaps 10 per cent less expenditure than would be the case with a revenue allocation system based solely on derivation. This conclusion depends on the assumptions: (a) that the derivation allocations now used are not inaccurate and biased against any region(s) and (b) that the revenue sources used for the Distributable Pool or for the Federal Government revenue are distributed in roughly the same pattern as the other revenues, both Regionally and Federally collected, that are retained on the principle of derivation by the Regional Governments.

(4) Combined Regional revenues (items 1-4 in Tables 13-16) have grown faster since Independence than has net Federal recurrent revenue.

		Combined Regional Revenues	Net Federal Revenues
	1960/1	L 68.6m	L 71.0m
	1961/2	65.6	65.8
	1962/3	81.4	66.9
	1963/4	77.0	73.0
	1964/5	96.2	82.6
Provisional	1965/6	99.9	91.3
Estimate	1966/7	117.1	102.6

(5) The largest sources of Regional revenue growth have been Distributable Pool and Regionally collected revenues. The former has

been of special benefit to the North, and to a lesser extent the East, in assisting the rapid growth of their expenditures. Its growth has also made nonderivation criteria of revenue allocation more significant in the recent years than they were at Independence.

(6) The West has been most sorely in need of funds to finance expenditure in recent years. This has resulted primarily from its low share of the Distributable Pool, lower Marketing Board contributions due to the exhaustion of its financial reserves and low cocoa prices, and lack of growth in derivation allocations, again largely due to low cocoa prices.

(7) The North and probably the East have been able to increase their expenditures in line with their administrative capacity to undertake new capital projects. The West had to hold a tight rein on new expenditure. The Federal Government has found ad hoc ways of financing rapid expenditure increases other than through its modest revenue increases. This is largely the result of legal and administrative advantages a central government has and regional governments do not have in a federal system.

The remainder of this section will be occupied with two problems: first, evaluation of the effectiveness of the fiscal review system; and second, examination of the allocation of the additional funds sources not covered by the statutory system discussed above.

The institutionalization of the Fiscal Review Commission by the Nigerian Constitution has tended to remove the concept of such a commission above criticism. Yet the use of such commissions may be on balance undesirable. Foremost among the objections to commissions formed of expatriate experts as has been the case to date is their unfamiliarity with Nigeria and the impossibility of accomplishing their task in the short period which they have to sift voluminous and often inconsistent data bearing on the revenue allocation problem. That such hurried proceedings can lead to appropriate recommendations may be doubtful. Secondly, the Fiscal Review Commission process is lengthy in the time spent from the agreement on the Commission's terms of reference to enactment or other disposition of the Commission's recommendations. Basic financial conditions may have changed before the Commission's recommendations can be put into effect. Lack of short-run responsiveness is therefore another criticism of the Fiscal Review Commission. Thirdly, the recommendations of the Commission depend basically upon political decisions on priorities or criteria which in practice the Fiscal Review Commission is forced to make. This selection among principles of revenue allocation, which have been discussed previously, depends on political preferences, not on any absolutes. Popularly chosen public representatives might be better suited to act on such questions than expatriate experts. Fourthly, it might be argued that the modifications past Commissions have made to divert the revenue allocation system from

complete dependence on the principle of derivation have been so minor as to be relatively unimportant.

While criticisms of the Fiscal Review Commission system are justified, they may ignore political considerations peculiar to the Nigerian situation which can make such exercises a fundamental part of keeping revenue allocation from becoming an issue which can provoke national disunity. Transferring the issue of fiscal review from the political arena to the technical may avoid calamitous interregional bickering. It is possible that no indigenous group could reach recommendations which could be accepted by all governments of the Federation as being impartial as can be the recommendations of a commission of disinterested expatriate financial experts. The lack of short-run responsiveness built into the Fiscal Review Commission system will not be important if other ad hoc mechanisms present for revenue allocation are available. Finally, the fact of having a firmly institutionalized process for deliberating over changes in the revenue allocation system may serve to eliminate procedural conflicts which could prove divisive.

Although we may find that use of Fiscal Review Commissions has been on balance desirable in Nigeria, we must examine the contention that the really significant variation of federal and regional revenue shares occurs through the many ad hoc decisions reached on revenue matters not rigidly defined by the Constitution and that Fiscal Review Commissions amount to only a shadow play. Ad hoc decisions may make needed short-run

revenue allocation adjustments, compensate for obvious errors in Fiscal Review Commission recommendations, or be used to reflect the balance of political or civil service power.

The ad hoc measures used that may alter the actual revenue allocation among the Federal and Regional governments from that prescribed in the Constitution may be summarized under the following categories: Federal Government grants, reimbursements and loans to the Regions, Development Loan allocations, Treasury Bill allocations, external aid allocations, and changes in the balances in the Other Governments Clearance Fund. Other items might be included but have been considered negligible in effect. It must be remembered that in addition to these ad hoc allocations which may change the pattern of funds source distribution, governments can finance additional expenditure through the drawing down of asset holdings.

Table 20 below shows the impact of the ad hoc allocations on the finances of each of the Federation governments. A minus sign designates a reduction in the funds available to a government. We find that to the £939m of statutorily allocated revenue received by the governments of the Federation from 1960/1 to 1965/6, a net total of £171m additional has been allocated by ad hoc means. Table 21 below shows the distribution of the statutory and ad hoc allocations among the governments.

TABLE 20

AD HOC FINANCE SOURCES

(in £ millions)

Key to columns:

1 = Federal Government Grants, Reimbursements and Loans
2 = Development Loans
3 = Treasury Bills
4 = External Aid
5 = Other Governments Clearance Fund
6 = Total
Negative sign indicates a reduction in the finance sources available to a government.

	1	2	3	4	5	6
Federal Government						
1960/1	-0.7	1.7	9.0	10.5	-	20.5
1961/2	-0.7	7.0	0.2	6.8	-1.2	12.1
1962/3	-0.5	7.0	4.5	5.6	3.9	20.5
1963/4	-4.1	12.0	5.8	1.0	4.7	19.4
1964/5	-3.3	6.9	6.8	2.0	3.6	16.0
1965/6	-4.1	8.7	5.7	11.9	-1.5	20.7
Total	-13.4	43.3	32.0	37.8	9.5	109.2
North						
1960/1	0.3	6.6	-	2.4	-	9.3
1961/2	0.3	-	4.0	0.2	0.1	4.6
1962/3	0.4	3.0	-3.2	0.4	-0.5	0.1
1963/4	2.1	3.0	1.2	0.4	-0.3	6.4
1964/5	2.7	2.7	-0.8	0.4	-4.0	1.0
1965/6	2.0	-	-1.2	0.4	0.8	2.0
Total	7.8	15.3	-	4.2	-3.9	23.4

TABLE 20 (Continued)

	1	2	3	4	5	6
East						
1960/1	0.2	1.7	-	1.7	-	3.6
1961/2	0.2	-	-	1.3	-	1.5
1962/3	-	2.0	-	0.6	-1.9	0.7
1963/4	1.3	2.0	0.5	0.2	-2.2	1.8
1964/5	0.1	2.1	-0.5	1.0	2.7	5.4
1965/6	0.8	2.1	-	0.6	-1.9	1.6
Total	2.6	9.9	-	5.4	-3.3	14.6
West						
1960/1	0.2	-	-	0.3	-	0.5
1961/2	0.2	-	3.0	0.1	1.1	4.4
1962/3	0.1	3.0	2.0	0.6	-1.5	4.2
1963/4	0.7	2.0	0.5	1.0	-2.0	2.2
1964/5	0.5	1.8	-1.0	1.0	-0.7	1.6
1965/6	1.1	2.1	-2.5	2.8	2.7	6.2
Total	2.8	8.9	2.0	5.8	-0.4	19.1
Mid-West						
1963/4	-	1.0	0.5	-	-0.2	1.3
1964/5	-	1.5	0.5	-	-1.6	0.4
1965/6	0.2	1.1	-	2.0	-	3.3
Total	0.2	3.6	1.0	2.0	-1.8	5.0
GRAND TOTAL	-	81.0	35.0	55.2	-	171.2

Note: The accuracy of many of the individual entries above is doubtful because of inconsistencies between Federal and Regional statistics, incomplete breakdowns of data, etc. Therefore, handle conclusions with care.

TABLE 21

FUNDS ALLOCATIONS AMONG NIGERIAN GOVERNMENTS

1960/1 TO 1965/6

	Statutory Sources	Ad Hoc Sources	Total Sources	Ad Hoc Sources Without the Other Governments Clearance Fund
Federal Government	48%	64%	51%	58%
North	17%	14%	16%	16%
East	16%	8%	15%	11%
West/Mid-West	19%	14%	18%	15%
	100%	100%	100%	100%

Several conclusions emerge from the data on ad hoc allocations:

(1) The Federal Government is able to use its power, prerogatives, and prestige as the national government to significantly increase its share of the total finance sources available to all the governments of the Federation. Whether this results from its just expenditure requirements or is a devious adjustment of the Fiscal Review Commission's adopted recommendations is problematical.

(2) The allocation of finance sources among the regions is not significantly altered by the ad hoc allocations. Table 22 below shows the allocations among the regions before and after the Distributable Pool allocations and after the ad hoc allocations.

TABLE 22

FINANCE SOURCE ALLOCATIONS AMONG REGIONS

1960/1 to 1964/5

	Before Distributable Pool Allocations	After Distributable Pool Allocations	After Ad Hoc Allocations
North	28%	32%	33%
East	31%	31%	30%
West/Mid-West	41%	37%	37%
	100%	100%	100%

(3) There has been no trend evident in the Federal Government's share of ad hoc allocations. There seems to be no correlation between the share of the ad hoc allocations that the Federal Government manages to take for itself and the size of the Federal Government's budgetary deficits exclusive of the ad hoc allocations.

(4) Allocations among the Regions vary greatly and appear to be very responsive to the immediate financial needs of the Regions. From 1960/1 to 1965/6 there have been eight annual total ad hoc allocations to individual regional budgets which have exeeeded £3m and eight regional budgetary deficits in the same period which have exceeded £3m (based on Table 21). Six of the large deficits and large allocations have coincided. The size of the total annual ad hoc allocations to a Regional Government may be largely determined by the size of its deficit between constitutionally allocated revenues and expected expenditure.

(5) There is no analysis attempted here of the comparative terms of the ad hoc allocations received by the various governments. It might be found that the North has received a larger share of grants than loans compared to the other governments and has also done especially well in securing soft-term external loans.

In summary, we may conclude that the Fiscal Review Commissions provided for in the Nigerian Constitution have assisted the North's financial position somewhat at the expense of the West's by making statutory

revenue allocations partly on the basis of criteria other than derivation. However, derivation remains the primary determinant of the statutory allocation at present. In contrast, the ad hoc financial allocations have done little to alter the relative Regional positions but have favored the Federal Government over the Regions. However, the division of the ad hoc allocations between the Federal Government and the Regions would approach the statutory allocation division if Treasury Bill proceeds were made available to the Regions on a long-term basis rather than being almost wholly retained by the Federal Government.

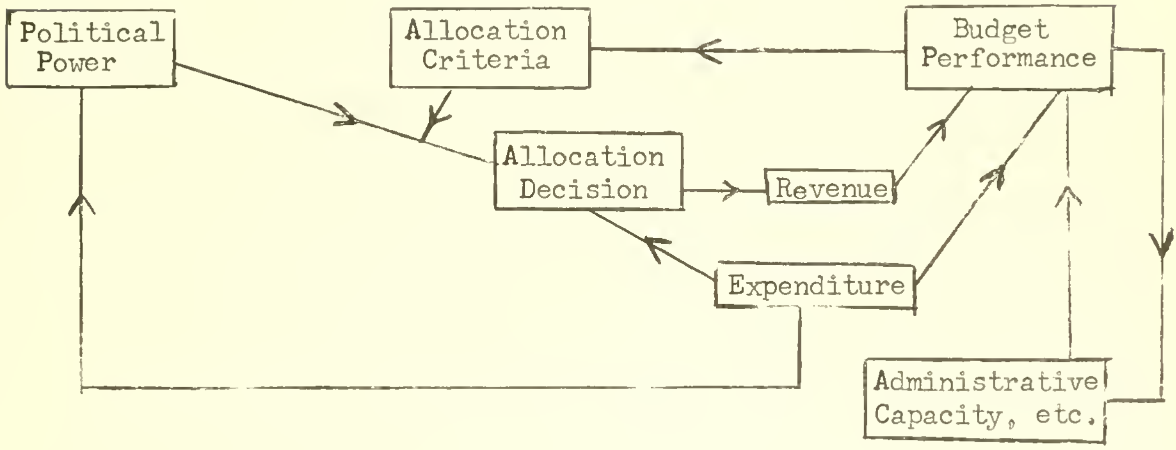
IV. An Overview

The successful operation of the Nigerian intergovernmental financial system after Independence was characterized by a flexibility in meeting short-run financial requirements of the governments and multiple opportunities to obtain nonconstitutional allocations of finances. This flexibility of the system was framed by the stability of having the main pattern of revenue distribution specified in the Constitution and subject to long-term review. The flexibility and diversity of the system are derived from the large number of ad hoc decisions which must be made almost continuously concerning finance sources for which a precise allocation is not specified in the Constitution. Thus far, financial difficulties on the part of any of the Federation Governments have been

relieved by making additional funds available through one of a number of ways. Political pressure pver the main means of revenue allocation has been kept to a minimum through the multiple opportunities available to obtain supplementary finances. Lack of success in obtaining a larger share of Development Loans, foe example, does not preclude hope of obtaining a larger share of Development Loans, for example, does not preclude hope of obtaining larger grants from the Federal Government, more foreign aid in its place, or larger allocations of Treasury Bills. Previous wrongs can always be expected to be adjusted through the next Fiscal Review Commission.

The Nigerian public finance system resembles a living organism, adjusting behavior to stimuli and the results of its own past behavior. The allocation of the 1965/66 Development Loan is one example. Favorable revenue results in the past two years and a limited administrative capacity to expand capital expenditure led the Northern government to return its "normal" share, which was partially used to increase the allocations to the other Federation governments and partly to reduce the total amount of internal borrowing required that year. A further example would be the balances in the Other Governments Clearance Fund. The Federal Government has a much lower balance owed to the West than to the other regional governments, largely as a result of the recent weak financial position of the Western Regional Government.

The Nigerian public finance system might also be described as a complex series of feedback loans which determine behavior and may lead to stable or unstable characteristics of the system. Certainly an Industrial Dynamics type study of the system might explain much of the behavior that can be observed. Here several simple feedback loops might be used to describe the system.



We should also note that the delays in the system between various decisions and events will play an important role in determining its characteristics.

An example of how the system would operate might be as follows: A region receives a large revenue allocation due to its alleged "need." However, for administrative reasons it may not be able to expand its

expenditure rapidly enough to fully utilize the new revenue. The resulting budget surplus might cast doubt as to its real "need" and lessen its requirements for additional allocations from ad hoc sources. Consequently, the total finances made available to the government might be considerably less than might have been expected from the original revenue allocation.

The Nigerian public finance system has shown an excellent ability to survive through small adjustments. Whether it can respond to basic shifts in political power such as occurred in Nigeria in 1966 or could make a major departure from the criterion of derivation in order to make a major attack on the imbalance in development between the North and the other regions, if this were judged desirable, remains to be seen.

Date Due

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