

Viability of Nigeria State Governments Independent of Statutory Allocations: Empirical Evidence (1999-2013)

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Abstract: This broad study empirically evaluates the viability of Nigeria state governments independent of statutory allocations. The study was basically motivated by the persistent dependence of Nigeria State Governments on allocations from the Federation Account to the neglect of internally-generated revenues; this being so even with the current down-turn in the crude oil market, which is the main source of revenue to the federation account. The study employed the ex- post facto research design and used the regression model to determine the causal relationship between states internally-generated revenue and statutory allocations on the one hand, and states total expenditures and total revenues on the other hand, during the period 1999–2013. The results of the analysis show that, though generally, internally-generated revenues and statutory allocations have significant effects on the dependent variables (total expenditures and total revenues) their contributions to total expenditures and total revenues vary significantly. While internally-generated revenues contribute insignificantly to total expenditures and total revenues, statutory allocations contribute maximally to those dependent variables. This confirmed the dependency assumption which formed the theoretical framework of this study. The implication of this is that currently state governments cannot finance their fiscal operations without statutory allocations and/or external borrowings, thereby posing a threat to their future viability in view of the current down – ward trend in the prices of oil in the world oil market upon which the Nigerian national budget is bench – marked. It is therefore, recommended that state governments should begin to direct more efforts toward effectively tapping the potentials of their internal sources of revenue as a safeguard against further fall in oil prices and hence, reduction in statutory allocations.

Keywords: State government finances, statutory allocations, Federation account, internally generated revenue, Government expenditures.

1. INTRODUCTION

Nigeria operates a federal system of government with three tiers- Federal, States and Local governments. These three levels of administration have powers and jurisdictions assigned to them by the Federal Constitution. In recognition of these powers and jurisdictions, the Constitution makes provisions for the collection and distribution of public revenue among the various levels of government. In specific terms, section 162 of the Constitution, among other things, empowers the president to table before the National Assembly, on the advice of the Revenue Mobilization, Allocation and Fiscal Commission, proposals for revenue allocation to the three tiers of government. Thus, every month, any amount standing to the credit of the said Federation Account is distributed to the three levels of government based on pre-determined criteria (or formula).

The foregoing constitutional provisions have far-reaching implications for the viability of various tiers of government in Nigeria.

Prior to the oil boom era in the early 1970s, revenue accrued to the Federation Account from various other sources, apart from oil, majorly from agricultural products such as palm-oil/kernel, cocoa, groundnut, rubber, cotton, hides and skin, to mention but a few. However, following the oil-boom all these sources of revenue were neglected such that today Nigeria derives close to 90% of her revenue from oil exports, being a major member of the Organization of Petroleum Exporting Countries (OPEC).

Table 1 below (State government Finances, 1999-2013), shows actual figures of States total revenue (TR), statutory allocations (SA), internally-generated revenue (IGR) and total expenditures (TE) for the period, 1999 to 2013. The relationships among these variables are presented in tables 2 and 3- Statutory allocations and internally-generated revenue as percent of total expenditure and States Internally-generated revenue and statutory allocations as percent of total revenue ,respectively.

Table 1: State governments finances (1999 -2013)

Year	TR (# bn)	SA (# bn)	IGR (# bn)	TE (# bn)
1999	169.0	103.7	34.1	167.9
2000	359.1	251.6	37.8	359.7
2001	573.5	404.1	59.4	597.0
2002	669.8	388.3	89.6	724.5
2003	855.0	535.2	118.8	921.2
2004	1113.9	777.2	134.2	1125.1
2005	1419.6	921.0	122.7	1243.2
2006	1543.8	1016.1	125.2	1586.8
2007	2065.4	1109.3	305.7	2116.1
2008	2934.8	1694.0	441.1	3021.6
2009	2590.7	973.8	461.2	2776.9
2010	3162.5	1353.7	757.9	3266.2
2011	3410.1	1786.3	509.3	3542.0
2012	3572.5	1857.0	548.1	3844.9
2013	3948.6	2082.3	624.4	4156.3

Source: CBN Annual Reports, various Issues

From table 1, it can be observed that, for most of the period, total expenditure of Nigeria State governments were considerably higher than their corresponding revenue and, on some periods double the combination of their total statutory allocations and internally-generated revenue. Thus, on many occasion, States fiscal operations are in deficits.

2. THE PROBLEM

Tables 2 and 3 below show that following the discovering of crude oil in commercial quantities State governments in Nigeria have persistently depended on federal monthly stipends for funding of their fiscal operations (recurrent as well as capital expenditures). For instance, CBN Annual reports indicate that between 1999 and 2013 the percentage of IGR (internally – generated revenue) to overall expenditures of State governments in the country ranges between 7.9% and 23.2% while the percentage of Statutory Allocations to Total Expenditures range from 35.1 to 74.1 percent within the same period (table 2).

In the same direction, the percentage of Internally generated Revenue to Total Revenue range from 8.1 percent to 23.9 percent while the percentage of Statutory Allocations to Total Revenue has a range of 37.6%-70.5% (table 3).

Table 2: Statutory Allocations & Internally Generated Revenues as percent of Total Expenditure

Year	TE (# billion)	SA as % of TE	IGR as % of TE
1999	167.9	61.8	20.3
2000	359.7	69.9	10.5
2001	597.0	67.7	10.0
2002	724.5	53.6	12.4
2003	921.2	58.1	12.9
2004	1125.1	69.1	11.9
2005	1243.2	74.1	9.9
2006	1586.8	64.0	7.9
2007	2116.1	52.4	14.4
2008	3021.6	56.1	14.6
2009	2776.9	35.1	16.6
2010	3266.2	41.4	23.2
2011	3542.0	52.4	14.4
2012	3844.9	48.3	14.3
2013	4156.3	50.1	15.0

Source: Authors' compilations, 2015

The implication of the foregoing is that without statutory allocations and external loans State governments in Nigeria cannot finance their operations. This is regrettably so even when most States in Nigeria are endowed with enormous natural resources (Agricultural, minerals, etc) which if well tapped could significantly reduce their prevailing over-dependence on federal allocations and external loans.

Of particular concern is the current down-turn in the global oil market. From late 2014 to early part of this year (2015) official reports indicate that the price of oil had fallen below \$70 per barrel as against the previous price of over \$100. This is expected to have far-reaching implications on federal and hence, state governments' revenue profiles as evidenced from a recent media report indicating that the fall in oil prices has reduced government revenue by 25%.

Table 3: States Internally Generated Revenue & Statutory Allocations as percent of Total Revenue

Year	TR (# billion)	IGR as % of TR	SA as % of TR
1999	169.0	20.2	61.4
2000	359.1	10.5	70.1
2001	573.5	10.4	70.5
2002	669.8	13.4	58.0
2003	855.0	13.9	62.6
2004	1113.9	12.0	69.8
2005	1419.6	8.6	64.9
2006	1543.8	8.1	65.8
2007	2065.4	14.8	53.7
2008	2934.8	15.0	57.7
2009	2590.7	17.8	37.6
2010	3162.5	23.9	43.3
2011	3410.1	14.9	52.4
2012	3572.5	15.3	52.0
2013	3948.6	15.8	52.7

Source: Authors' compilations, 2015

The situation thus, raises concern over the long-run sustainability of sufficient statutory allocations to the lower tiers of government in Nigeria. This suggests a need for a determination of the desirable levels of internally generated revenue and statutory allocations necessary for effective and sustainable financing of State Governments' fiscal operations, with a view to providing answers to the following questions:

- What is the effect of internally-generated revenue on total expenditures of State Governments in Nigeria?
- What is the contribution of statutory allocations to total expenditures of State governments in Nigeria?
- To what extent does internally-generated revenue contribute to the total revenues of State governments in Nigeria?
- What is the effect of statutory allocations on the total revenue of State governments in Nigeria?

3. OBJECTIVES OF THE STUDY

This study seeks to evaluate the viability of Nigeria State governments independent of statutory allocations from the federation accounts. In particular, we evaluate the causal relationships between States Internally-Generated Revenue and Statutory Allocations on the one hand, and States Total Expenditures and Total Revenues, on the other hand for the period 1999 to 2013. The period 1999-2013 was selected as the period of investigation so as to cover the period during which Nigeria had the longest period of democratic governance. The beginning of the investigation period of 1999 was preferred as that was the year the present Constitution of Nigeria, in which the current revenue allocation formula is enshrined came into effect while the end of the investigation year of 2013 was the year up to which data were fully available. Specifically, we seek to:

- determine the effect of Internally – Generated Revenue on Total Expenditures of State governments in Nigeria;
- evaluate the contribution of Statutory Allocations to the Total Expenditures of State governments in Nigeria;
- Determine to what extent Internally-generated Revenue contributes to the Total Revenue of State governments in Nigeria.
- Evaluate the effect of Statutory Allocations on Total Revenue of State governments in Nigeria.

4. HYPOTHESES

Based on the foregoing specified objectives the following null hypotheses are tested:

- 1 Ho: Internally- generated Revenue has no significant effect on Total Expenditures of State Governments in Nigeria.
2. Ho: Statutory allocations have no significant effect on total expenditures of State governments in Nigeria.
3. Ho: Internally generated revenue has no significant effect on total revenue of State governments in Nigeria.
4. Ho: Statutory allocations have no significant effect on total revenue of State governments in Nigeria.

5. LITERATURE REVIEW

Conceptual Framework:

Section 162(10) of the Nigerian Constitution of 1999 defines revenue as:

“any income or return accruing to or derived by the Government – (federal, States and Local Governments from any source and includes – any receipt however described, arising from the operation of any law, any return, however described, arising from or in respect of any property held by the Government of the federation; and any return by way of interest on loans and dividends in respect of shares or interest held by the government of the federation in any company or statutory body”.

The section further requires the Federal Government to maintain a

‘special account’ to be known as *“The Federation Account”* into which *“all revenues collected by the Government of the federation except the proceeds from the personal income tax of the personnel of the armed forces of the federation, the*

Nigerian Police Force, the Ministry or department of government charged with responsibility for Foreign Affairs and the residents of the Federal Capital Territory, Abuja shall be paid..”

These legal provisions seem to have provided legal backing for the rather injurious over-dependence of lower levels of government on statutory allocations to the detriment of other sources of revenue available in their areas of jurisdiction.

Oseni (2013) reports that prior to the local government reforms of 1978, the generation of internal sources of revenue were at their maximum and that local governments (and states) responsibilities were effectively carried out with or without help from the central authority. However, when the 1978 reforms were introduced internal revenue generation as a major means of financing local (and state) governments was abandoned in preference to the revenue from the federal statutory allocations. This, according to Atakpa, Ocheni and Nwankwo (2012), was principally identified as the bane of internal revenue generation at local (and States) levels of government. They concluded that self-reliance cannot be actualized by States and Local Governments unless efforts are intensified to fully tap their internal sources of revenue.

Ekpo (2003) sees fiscal federalism as a system of resolving the relations arising from the political decentralization of the public sector functions and responsibilities. He sums up the concept of federalism thus:

“The term deals with the allocation of resources among the three tiers and units of government, and institutions for the discharge of responsibilities assigned to each jurisdictional authority. The nature and well fashioned fiscal relations in any federal system are crucial to the continual existence of such systems. One of the cardinal principles of federalism is that no level of government is subordinate to one another, though there must be a central government for this arrangement”.

Empirical Review:

Aigbepue and Ainabor (2011) carried out a study on the issues and challenges of Nigeria fiscal federalism. Adopting content analysis as their research method, they described federalism as *“the internalization of the administrative system designed to cope with size, difference and peculiarities of the regions or state and/or ethnic groups”*. They argue that as a federating state, Nigeria operates a revenue allocation system which takes care of all component parts of the federation. Itemizing the objectives of fiscal relationship in a federation as ranging from ensuring correspondence between sub – national expenditure responsibilities to ensuring consistency with nationally agreed income distribution goals, they argued that a ‘stable federation’ can only be realized in an environment of equity, fairness and justice. That is, the evolution of an equitable revenue formula that would be in the best interest of a stable Nigerian federation.

Oseni (2013) studied the contribution of internally generated revenue to state development in Nigeria. Adopting the descriptive techniques of analysis he determine the summary statistics and trends of secondary data relating to state government finances for the years 2007 to 2011. It was found, among others that during the period covered by the study, internally generated revenue of states represented less than 14% of their entire revenue with Lagos State posting the highest ratio of IGR to total revenue of over thirty six percent. This was attributed to the engagement of tax consultants by that State government in its revenue collection.

It was further reported that states having the 13% derivation from petroleum production, with the exception of Rivers and Edo, have low internally generated revenue in relation to overall revenue. This buttresses the general notion that without statutory allocations several states cannot discharge their statutory responsibilities. However, whether it is sound economic reasoning for states to perpetually depend on federal allocations for financing their fiscal operations is a subject for empirical evaluation.

Agba, Ocheni and Okechukwu (2014) studied the challenges of financing Local Governments in Nigeria in a democratic setting with a view to suggesting action plans for improvement. Using descriptive research method, the authors critically reviewed various avenues for generating funds by local governments in Nigeria. They further explored the factors that affect the viability of local government councils in the context of fiscal federalism as provided for in the 1999 constitution of the Federal Republic of Nigeria.

The study found, among other things, that the major factors affecting local government finance in Nigeria include uneven distribution of resources, lack of fiscal freedom, excessive reliance on federal allocations, creation of local councils that are not viable as well as, *“dishonestly and corruption”*. The paper therefore, recommended that local governments should

intensify efforts in developing avenues for generating funds so as to reduce over dependence on statutory allocations.

An examination of the relationship between government revenue and government expenditure in Nigeria – co integration and causality approach, was a study carried out by Obioma and Ozughalu (2010). Using empirical data from 1970- 2007, the study examined the interaction between government revenue and government expenditure in Nigeria. It employed the ‘Engel-Granger two- step co integration’ techniques, the ‘Johansen co integration’ method and the ‘Granger causality test’ within the ‘Error Correction Modeling (ECM)’ framework. Empirical findings from the study indicate, among other things, that there is a long-run relationship between government revenue and government expenditure in Nigeria. The findings thus, affirm the ‘revenue – spend hypothesis’ for Nigeria, implying that expenditures of government are significantly affected by fluctuations in revenue fluctuations.

Theoretical Framework:

This study is anchored on the Dependency Theory developed in the late 1950s under the guidance of the Director of the United Nations Economic commission for Latin America, Paul Prebisch (Ferraro, 1996). Prebisch’s study suggests that economic activity in the richer counties often lead to serious economic problems in the poorer countries. The poverty of poor nations is often a by-product of over-reliance on the resources of richer nations

This situation can be likened to the prevailing fiscal federalism in Nigeria whereby States and Local governments depend largely on the Federal government for revenue allocation for the financing of their fiscal operations. The allocation of the taxing powers of the three tiers of government in Nigeria (Federal, States and Local governments) in which the central government control most of the lucrative revenue sources, both in terms of the power to legislate and to administer and collect (Odusola 2006, cited in Chukwu , 2011) is in tandem with this theory. In Nigeria, the major tax which the states share jurisdiction with the federal government is the personal income tax, though its legislation rests with the federal government. While the federal government collects the personal income tax of the personnel of the armed forces, the states collect those of other residents in their respective territories. This imbalance in revenue powers of different levels of government leaves the lower levels of government perpetually dependent on the higher level of government for the financing of their operations.

Oseni (2013) reports that before the 1976 Local Government reforms IGR generation were at there maximum levels. The federal government provides little or no assistance to other tiers of government which were effectively discharging their responsibilities. However, following the advent of statutory allocations the exploitation of internal revenue sources to finance other tiers of government was severely neglected in preference to the revenue from the federation account. Thus Atakpa, Ocheni and Nwakwo (2012) concluded that that was the genesis of the persistent dwindling fortunes of revenue generation at the lower levels of government in Nigeria. It is their opinion that for States and Local governments to be self-reliant they must look inwards to fully tap their internal sources of revenue. Local government councils partially gave up most of their traditional revenue sources following the 1981 Revenue Act. Two factors were majorly responsible for the partial neglect of internal sources of revenue by some local councils- the advent of the oil boom and a statement credited to a one time Head of State of Nigeria to the effect that the major hindrance to the growth of the Nigerian economy was “executive capacity” rather than “finance”. Prior to that time internally –generated revenue constituted as much as eighty five percent of total revenue of some local governments. Nevertheless, the need to raise internal revenue from its dismal level became necessary following the decline in the oil revenue.

Currently there is nearly hundred percent reliance by states in Nigeria on statutory allocations to discharge basic responsibilities. Without monthly statutory allocations from the federation account no basic operations can be performed. With this monthly stipends assured, lower levels of government pay minimal attention towards growing their internal resources which could have helped them to be independent.

Abiola and Asiweh (2012) also highlighted the contribution of Lagos State to government revenue generation in Nigeria. They stated that Lagos State is among a few states in Nigeria that have left a land mark in terms of independence and use internally generated revenue. Syndelle (2009) observed that in 2007, Lagos state achieved a gross domestic product of N3.68 trillion, an equivalent of \$29.028 billion making it the biggest contributor to the federation’s gross domestic product.

6. RESEARCH DESIGN AND MODEL SPECIFICATION

This study adopts the ex-post facto research design, using time series data covering a period of fifteen years (1999-2013) on Nigeria State governments' finances. The broad objective is to evaluate the respective contributions of States internally – generated revenue and statutory allocations to total expenditures and total revenues during the study period. This is with a view to determining the level of fiscal dependency of State governments in Nigeria on Federal Government allocations.

First, we ran a regression analysis of the relationship between States internally – generated revenues and their total expenditures for the study period with a view to testing hypothesis one. Hypothesis two was tested by running the regression of the relationship between states statutory allocations and their total expenditures.

We further established the contributions of internally- generally revenue to total revenue of State governments by regressing the former (internally-generated revenue) against the later(total revenue) to satisfy research objective three; while the fourth objective of the study was satisfied by regressing total States statutory allocations against total revenue of States.

Thus, the relationships between the dependent variables (State governments' real expenditures and their real total revenues) and the explanatory variables (States real internally – generated revenues and their real statutory allocations) were determined by analyzing the following basic equations, using the Granger causality test (Obioma et al, 2010):

$$RSGTE_t = f(\alpha_0 + \alpha_i + RSIGR_t + \mu_1) \quad (i)$$

$$RSGTE_t = f(\alpha_0 + \alpha_i + RSSA_t + \mu_2) \quad (ii)$$

$$RSGTR_t = f(\alpha_0 + \alpha_i + RSIGR_t + \mu_1) \quad (iii)$$

$$RSGTR_t = f(\alpha_0 + \alpha_i + RSSA_t + \mu_2) \quad (iv) \text{ where:}$$

RSGTE = Real State Governments expenditures

RSIGR = Real States internally- generally revenue

RSSA = Real States Statutory allocations and

RSGTR = Real State governments total revenue

α_0, α_i , are parameters to be estimated

u_1 and u_2 are stochastic error terms.

Data on the variables (i.e. RSGE, RSIGR, RSSA and RSGTR) were collected from the Central Bank of Nigeria Annual Reports (1999 – 2013).

7. ANALYTICAL TECHNIQUES

The relationships amongst internally – generated revenue, statutory allocations, expenditures and total revenues of state governments in Nigeria constitute the basis of empirical analysis. The hypotheses were tested using regression analysis and the F- values were obtained at the 95% level of significance to assess the linearity assumptions. The adjusted coefficients of determination (R^2) were used to determine whether the explanatory variables, i.e. internally generated revenues and statutory allocations) adequately explain the behavior patterns of the dependent variables (i.e. State governments expenditures and total revenues).

The results of the statistical analysis were used to test the hypotheses. For each hypothesis, decision (rejection or acceptance of the null) is based on the coefficient of each parameter and the F- test values.

8. ANALYSIS OF DESCRIPTIVE RESULTS

Table 4 below is the summary of the descriptive statistics of the means and standard deviations as derived from the empirical data reported in tables 5-9 (regression outputs of the dependent and the independent variables).It can be observed from this table that the dependent variables, real total expenditure (RTE) and the independent variables (RTE) had the highest overall means of #1892. 52bn and #1963.29bn respectively.

Table 4: Summary of descriptive statistics

Variable	Mean	S.D	N
RTE	1963.29	1362.51	15
RTR	1892.55	1286.03	15
RIGR	291.30	243.34	15
RSA	1016.91	627.02	15

Source: Summary of descriptive statistics

Key: RTR = Real total revenue of state governments in Nigeria

RITR = Real internally – generated revenue of state governments in Nigeria

RTE= Real total expenditure of state governments in Nigeria

RSA = Real statutory allocations of state governments in Nigeria

The difference between means of real total expenditure (RTE) and real total revenue (RTR) of #70.74bn (#1963.29 - #1892.55) indicates the average level of deficit financing of State governments' operations during the fifteen – year study period.

In the same vein, the explanatory variables, real internally-generated revenue (RIGR) and real statutory allocations (RSA) had relatively lower average yields of #291.30bn and #1016.91bn respectively. Worthy of special note is also, the significant difference between the means of statutory allocations (RSA) and internally – generated revenue (RIGR). Average statutory allocations exceed average internally – generated revenue by a whopping #725.6bn (#1016.91-#291.30) during the study period. In other words, statutory allocations account for nearly 54% of total revenue of state governments, while the balance of 46% is accounted for by internally – generated revenue and state government's borrowings. The low average yield of internally – generated revenue as compared to statutory allocation is an indication of the alarming level of over dependence of State governments in Nigeria on statutory allocations over the years.

9. REGRESSION RESULTS

The statistical indexes of the relationship between the dependent and independent variables are summarized in table5 below. The indexes were derived from the actual regression results as detailed in tables 5 to 9.

Table 5: Summary of Regression Result

Equation	Const.	Regr coef	R ²	Adjsd R ²	Std Erro	Sig.
1 RIGR vs RTE	418.867	5.302	0.896	2.888	0.499	0.0000
2 RSA vs RTR	- 165.32	2. 093	0.928	0.922	0.162	0.0000
3 RIGR vs RTR	437.632	4.994	0.893	0.884	0.479	0.0000
4 RSA vs RTR	-129. 635	1.989	0.893	0.935	0.139	0.0000

Source: Authors Compilations from regressed data

Table 5 shows the regression result of the relationship between the dependent variables (real total expenditure and real total revenue of State governments) and the independent variables (real internally generated revenue and real statutory allocations of State governments) for the fifteen – year period (1999- 2013). Each of the four equations represents each of the four specific objectives set out for this study. The regression results show that the estimated coefficients of the regression parameters have positive signs, thus confirming our a-priori expectation. The implication of these signs is that the dependent variables are positively influenced by the independent (explanatory) variables.

From equations 1 (row 1) the coefficient of determination R^2 of 0.896 implies that 89.6% of the sample variation in the dependent variable, total expenditure, is explained or caused by the explanatory variable, internally – generated revenue, while 10.4% is unexplained. This means that 10.4% could be caused by other factors or variables not built into the model.

In the same vein, the R^2 value of 0.893 for equation two implies that 89.3% of the sample variation in total revenue is explained by internally – generated revenue while 10.7% is unexplained and may have been caused by factors not included in the regression model.

For equations three and four the coefficients of determinations, R – square values are 0.928 and 0.940 respectively and are higher than those for equations one and two respectively. This implies that statutory allocations (SA) contribute more to total State government expenditures (TE) and total revenues (TR) than internally – generated revenues (IGR).

This is further buttressed by the trends in the movements of the dependent and independent variables as depicted in the tables, graphs and bar-charts (see appendices).

10. TESTS OF HYPOTHESES

Tables 6-9 provide details of the regression outputs for the tests of hypotheses 1-4. In all four cases the null hypotheses were rejected leading to the conclusion that the dependent variables and the explanatory variables are positively correlated. However, the low ratio of internally-generated revenue to total expenditures and total revenues of Nigeria State government is indicative of the fact that the potentials of their internal revenue sources are not fully exploited. This trend needs to be reversed.

Table 6: Regression Output of IGR on TE

Dependent Variable: TE				
Method: Least Squares				
Date: 03/16/15 Time: 06:07				
Sample: 1999 2013				
Included observations: 15				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	418.8671	186.9411	2.240637	0.0431
IGR	5.301841	0.499405	10.61631	0.0000
R-squared	0.896584	Mean dependent var		1963.293
Adjusted R-squared	0.888629	S.D. dependent var		1362.509
S.E. of regression	454.7005	Akaike info criterion		15.20072
Sum squared resid	2687783.	Schwarz criterion		15.29513
Log likelihood	-112.0054	Hannan-Quinn criter.		15.19972
F-statistic	112.7061	Durbin-Watson stat		1.591703
Prob(F-statistic)	0.000000			

Source: Statistical analysis of empirical data using e-view 3.0

Table 7: Regression Output of SA on TE

Dependent Variable: TE				
Method: Least Squares				
Date: 03/16/15 Time: 06:17				
Sample: 1999 2013				
Included observations: 15				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-165.3195	191.5271	-0.863166	0.4037
SA	2.093223	0.161810	12.93631	0.0000
R-squared	0.927917	Mean dependent var		1963.293
Adjusted R-squared	0.922372	S.D. dependent var		1362.509
S.E. of regression	379.6188	Akaike info criterion		14.83978
Sum squared resid	1873435.	Schwarz criterion		14.93418
Log likelihood	-109.2983	Hannan-Quinn criter.		14.83877
F-statistic	167.3481	Durbin-Watson stat		1.362331
Prob(F-statistic)	0.000000			

Source: Statistical analysis of empirical data using e-view 3.0

Table 8: Regression Output of IGR on TR

Dependent Variable: TR				
Method: Least Squares				
Date: 03/16/15 Time: 06:05				
Sample: 1999 2013				
Included observations: 15				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	437.6323	179.3699	2.439832	0.0298
IGR	4.994580	0.479179	10.42320	0.0000
R-squared	0.893130	Mean dependent var		1892.553
Adjusted R-squared	0.884909	S.D. dependent var		1286.027
S.E. of regression	436.2847	Akaike info criterion		15.11803
Sum squared resid	2474477.	Schwarz criterion		15.21244
Log likelihood	-111.3852	Hannan-Quinn criter.		15.11703
F-statistic	108.6432	Durbin-Watson stat		1.474717
Prob(F-statistic)	0.000000			

Source: Statistical analysis of empirical data using e-view 3.0

Table 9: Regression Output of SA on TR

Dependent Variable: TR				
Method: Least Squares				
Date: 03/16/15 Time: 06:15				
Sample: 1999 2013				
Included observations: 15				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-129.6350	164.8994	-0.786146	0.4459
SA	1.988568	0.139314	14.27402	0.0000
R-squared	0.940022	Mean dependent var		1892.553
Adjusted R-squared	0.935409	S.D. dependent var		1286.027
S.E. of regression	326.8412	Akaike info criterion		14.54039
Sum squared resid	1388727.	Schwarz criterion		14.63480
Log likelihood	-107.0529	Hannan-Quinn criter.		14.53939
F-statistic	203.7476	Durbin-Watson stat		1.366875
Prob(F-statistic)	0.000000			

Source: Statistical analysis of empirical data using e-view 3.0

11. DISCUSSION OF RESULTS

Analysis of the descriptive statistics of State governments finances show that average internally-generated revenue were consistently low in comparison to the levels of total revenue and total expenditures of state governments during the study period (1999- 2013). This is attributable to lack of commitment on the part of government revenue agencies to tap fully the potentials of various revenue sources available to State governments in Nigeria. Contrastingly, the mean contributions of statutory allocations to total government expenditures and total revenues are quite high. The reason for this is not far-fetched – Nigeria is a major oil producer and revenue there-from is always in steady supply for distribution to the various tiers of government. However, with the current significant fall in oil prices in the world market (below \$50 per barrel in February, 2015) it will not augur well for State governments to continue to fold their hands waiting for statutory allocations.

The results of our empirical analysis further show that both of the explanatory variables (internally – generated revenue and statutory allocations) have significant relationships with each of the two dependent variables (total expenditures and total revenues of State governments). This finding is in agreement with Obioma et al (2010) who reported a long- run relationship between government revenue and government expenditure in Nigeria.

Our analysis further show that statutory allocations constitute the major components of State government expenditures and total revenue (averaging over 60 percent) during the study period. However, it has been shown in pervious studies that over dependence on oil revenue has far – reaching consequences – it may lead to the “Dutch disease syndrome (Herberger, 1983, cited in Chukwu, 2011). The studies explain how the convenience of wealth effect influences governments expenditures and non- oil revenue efforts.

With respect to government expenditures, given the high level of confidence that steady inflow of oil revenue is a certainty, government tend to increase expenditures beyond acceptable levels thereby inducing inflation.

The minimal contributions of internally – generated revenue to government expenditure and total revenue as revealed in the descriptive statistics, is attributable to the low yields of our tax system. The reason, according to Osoro (1991), cited in Chukwu (2011) is that most of Nigerian tax reforms focus on forms of taxes instead of administrative efficiency that would result to improved income from prevailing sources of tax. Other reasons include administrative inefficiency, faulty

collection system, legislative complexity as well as apathy on the part of those outside the tax net (self – employed persons).

The concern over the meager contribution of non- oil revenue to the finances of State governments, as revealed in this study supports Aghevli and Sassanpour (1982) and Veez – Zedeh (1989) who observed that the level of non- oil revenue is a function of the magnitude of the economic effect of the oil wealth. In specific terms they noted that a nation's perception of the level of its oil wealth determines to what extent effort is exerted towards tapping resources from the non oil sector. A nation is likely to shift more resources from the oil sector to the non oil sector, through tax increases, the more the government perceives the oil wealth to be permanent, and vice-versa.

Our finding that high expectation of huge statutory allocations from the central government is a disincentive to internal revenue generation is further supported by Oseni (2013) who reports that there is a general erroneous notion that without federal allocations States cannot discharge their civic obligations to the people. However, it should be noted that within the territorial boundaries of each state a lot of revenue potentials abound which are left untapped. For instance, Lagos state generates huge amount of internal revenue annually even though it does not receive extra allocations from oil revenue – quite a good lesson to other states!

The foregoing has the following policy implications: State governments should channel more efforts toward boosting internal revenue generation as a cushion against swings in oil revenue, and hence the federation account. In particular, there is the need to revamp the agricultural sector so as to boost food production for local consumption and export.; the tax administration machinery at the states level should be improved so as to improve the yield of the states tax system through proper maintenance of registers of taxpayers which should be kept current, free distribution of tax return forms to all areas, taking into account the geographical distribution of taxpayers and regular field audits at the taxpayers' places of business during which intensive checks of the taxpayer's records and business are conducted by trained personnel. The Internal Revenue Board should make it as a permanent part of its culture, regular town hall meetings with taxpayers and staff of the Board to educate the former on the need for and benefits of tax compliance.

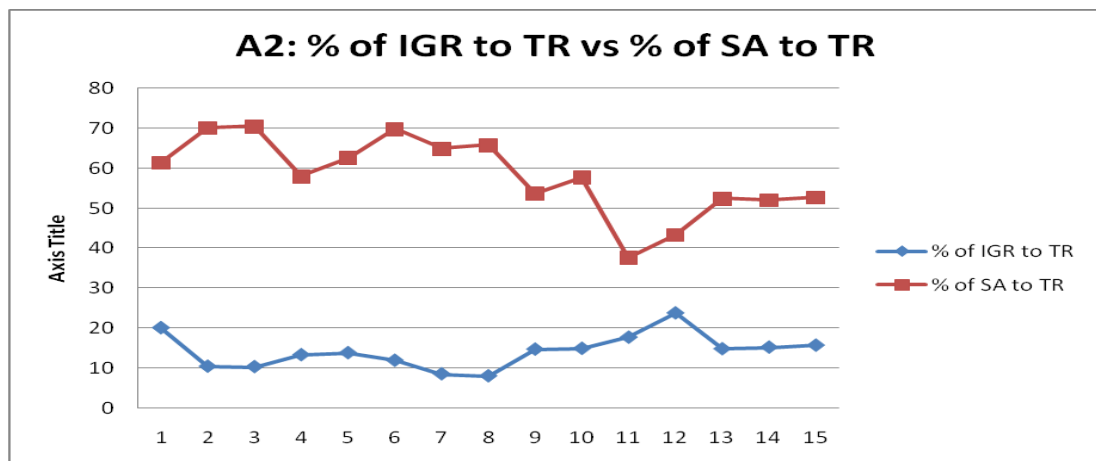
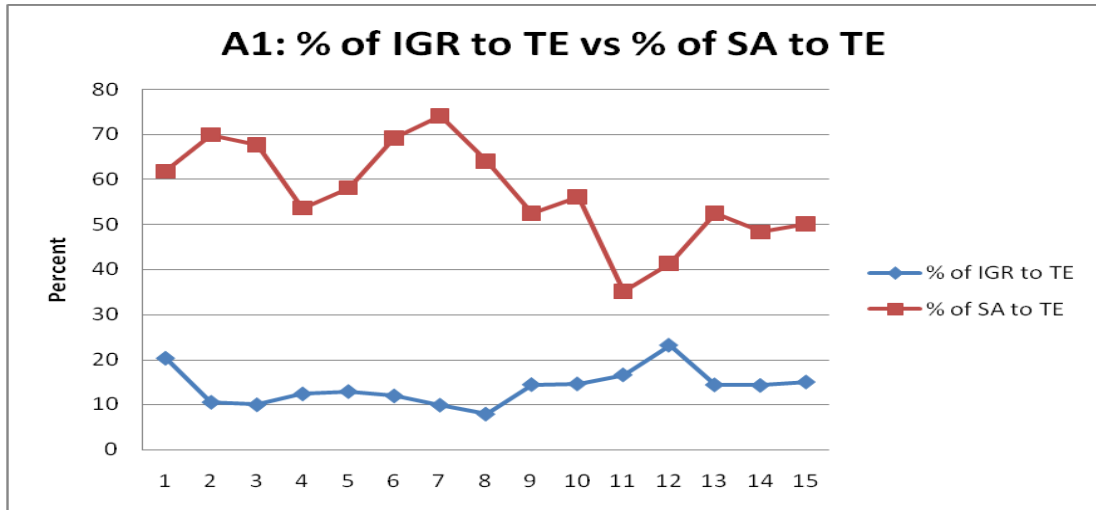
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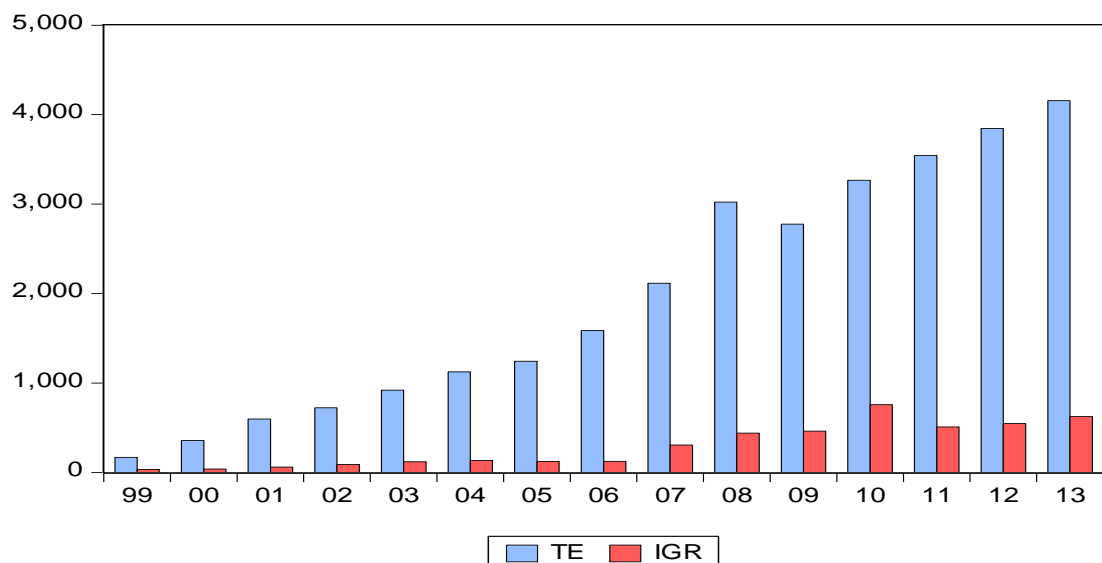
APPENDICES

APPENDIX A: GRAPHICAL PRESENTATIONS OF EMPIRICAL DATA

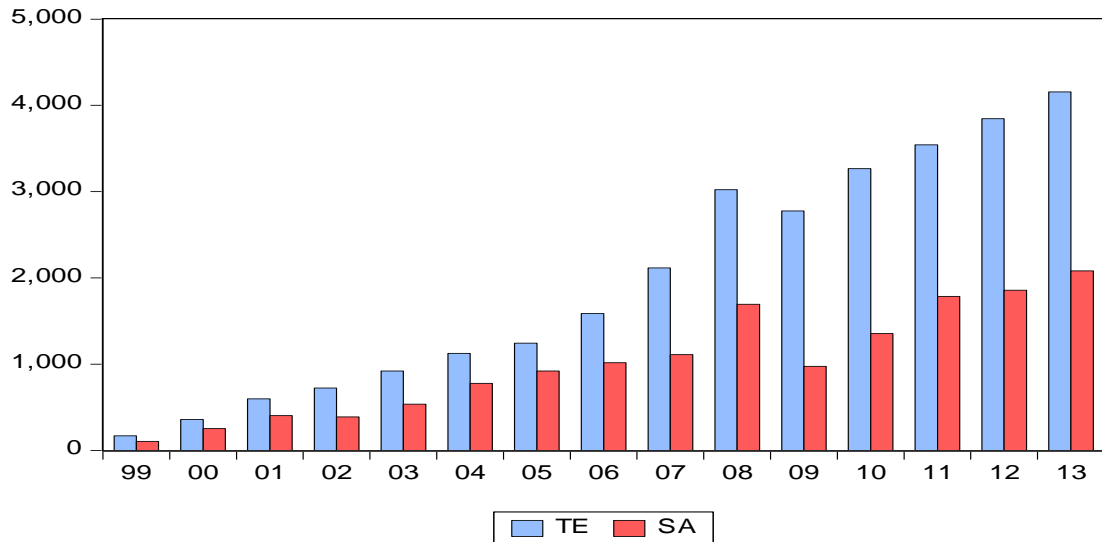


APPENDIX B:: BAR-CHAR

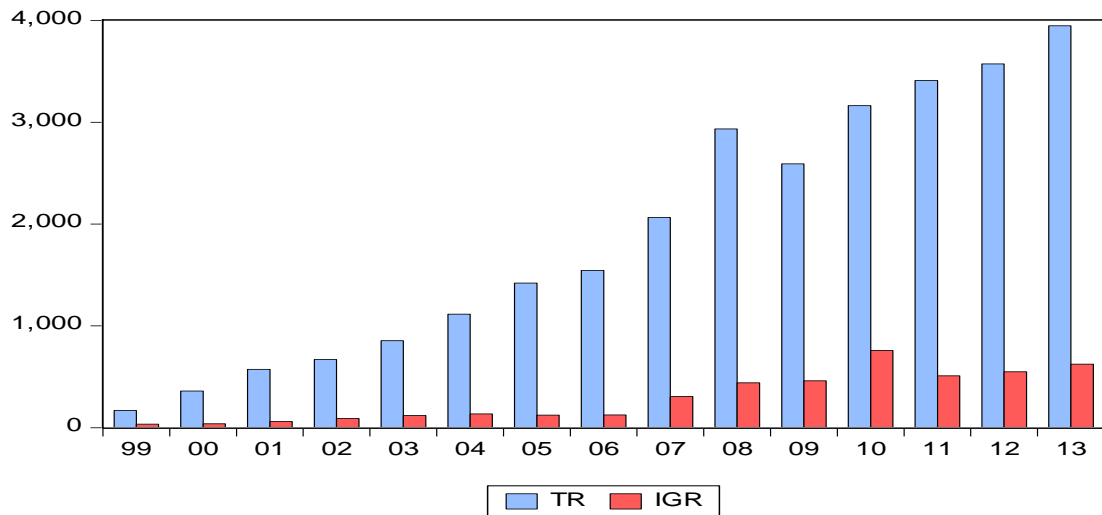
B1: STATES INTERNALLY-GENERATED REVENUE AND TOTAL EXPENDITURE



B2: STATES STATUTORY ALLOCATIONS AND TOTAL EXPENDITURES



B3: STATES INTERNALLY GENERATED REVENUE AND TOTAL REVENUE



B4: STATES STATUTORY ALLOCATIONS AND TOTAL REVENUE

