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Fiscal Federalism and Socioeconomic Development in Nigeria

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ABSTRACT: This paper examines how fiscal federalism had enhanced socioeconomic development in Nigeria. Nigeria has 36 states with political autonomy but depend on the federal government for economic survival since all productive activities belong to the federal government. Our analysis and discussion show that states with high production and revenue generation capacities were able to reduced poverty, create more jobs and improve literacy and human capital in spite of the federal government using most of their revenue to service states with less revenue generation capacity. The paper also reveals that almost all the states with very low production and revenue generation capacities have very high poverty level, unemployment and illiteracy level. Lagos, Rivers, Oyo and Ogun states were found to have generated more revenue than the rest states of the federation hence achieved higher level of economic development or socio-economic outcomes than other states. This implies that if the states are allowed to produce based on the available resources they have and pay tax to the federal government, the states will achieve higher level of development than what they have now. Based on these findings, the paper recommends the scraping of the present principles for revenue sharing and the enthronement of the derivation principle in which the federating units produce and pay tax to the central government as measures toward achieving sustainable development in Nigeria

KEY WORDS: Fiscal Federalism, Revenue allocation, Poverty level, literacy rate and unemployment rate

1. INTRODUCTION

In recent years, the issues of resource control, revenue allocation and fiscal federalism have dominated discussions at various levels of Nigeria's economic and political debates. Nigeria as a nation operates a federal structure of government. Thus, fiscal federalism is a byproduct of federalism. Federalism is a political concept in which the power to govern is shared between national, states and local governments, creating what is often called a federation (Enefiok, 2020). Ewetan (2012) stated that fiscal federalism is the principles that guide the assignment of tax powers and expenditure responsibilities to the various tiers of government in a federation to promote healthy intergovernmental relations and synergy. It is the allocation of taxing power, federally collected revenue and federal expenditure to the different levels of government in a federation so as to enable them discharge their constitutionally assigned functions and responsibilities to their citizens.

In Nigeria, revenue allocation is taken as the distribution of national revenue among the various tiers of government in the federation in such a way as to reflect the structure of fiscal federalism. The Federal Government, 36 State Governments and the 774 Local Governments have a percentage of the revenue allocated from the federation account which is distributed in the following proportions: 48.50 percent to the Federal Government, 26.72 percent to States, 20.60 percent to the Local Government councils, and 4.18 percent to centrally control special funds on the basis of the following indices and percentage weights: equal shares to each state or locality at 40 percent; population at 30 percent; social development needs at 10 percent; land mass and terrain at 10 percent and internal revenue generation at 10 percent (Suberu in Enefiok, 2020). Under the current sharing arrangement in 2022, the Federal Government takes 52.68 percent of the revenue shared, States get 26.72 percent while Local Governments get 20.60 percent (Central Bank of Nigeria, 2022). Each tier of Government is given adequate resources to be able to discharge its constitutional responsibilities, which is very important for the preservation of the autonomy of the constituent units. Thus, the importance of revenue generation, allocation as well as its distribution towards the economic growth and socioeconomic development of the Nigerian economy cannot be overemphasized (Ohiomu & Oluyemi, 2017). Ajibola (2018) stated that fiscal federalism demands that each level of government should have adequate resources to perform its functions without appealing to the higher level of government for financial assistance as this will lead to growth and development of the Nigerian economy.

However, Suberu in Enefiok (2020) established that the dominant features of distributive federalism in Nigeria is its dependence on oil revenue as the pivot of the economy. This means that the financial resources of the federation are concentrated overwhelmingly in the federal government. These are the revenue generated from the taxation of petroleum profits, companies' profits, custom and excise, and a number of other lucrative revenue sources are collected by the federal government and paid into the Federation Account. Although this account is expected to serve all the three tiers of government so as to contribute to growth and development, it is often unilaterally, arbitrarily and illegally operated, appropriated and manipulated by the federal authorities and this consequently have negative effect on developmental projects that could improve socioeconomic outcomes in Nigeria.

The Nigeria's federation appears not to conform with the basic ingredients of a federal system hence Okowa (2001) concluded that the application of the word federal to the contemporary Nigerian nation state is "a fundamental fraud". It is clear from Okowa's argument that Nigeria's contemporary fiscal federalism is organized around the sole purpose of sharing out to the major ethnic nationalities, the oil wealth of the people of the Niger Delta. It is a neo-colonial arrangement. Thus, the logic of a fiscal federalism that enabled the majority nationalities to expropriate the wealth of the minority nationalities engendered attitudes opposed to work as a means of wealth creation, that is to say, Abdulistic attitudes (Okowa 1994). Consequently, Nigeria after more than 60 years of practicing fiscal federalism, Nigeria has been battling with the problems of growth and development. Many local governments have not been able to embark on developmental projects in their areas or domains without appealing to the federal and states governments for assistance. This is as a result of unmatched functional responsibilities with financial strength or capabilities and restricted revenue jurisdiction by the local government among others. Moreover, revenue allocation and government expenditures continue to increase in Nigeria but this increase seems not to have translated to meaningful growth and development as Nigeria still ranks among the poorest countries in the world. In addition, Nigeria is still faced with many socioeconomic development challenges such as low literacy rates, high infant mortality rate, high maternal mortality rate, low per capita income and living standards, poor primary healthcare delivery and widespread poverty and corruption. Couple with this is dilapidated infrastructure (especially roads and power supply) that has led to the collapse of many industries, leading to high rate of unemployment. Hence, there is a need to evaluate the pattern of fiscal federalism and socioeconomic outcomes in Nigeria.

In this study, fiscal federalism is defined in term of the ability of the federating units/states to facilitate the production of goods and services and generate revenue needed to carry out administrative activities and projects/programmes that will create jobs, reduce poverty and improve human capital development. We shall continue our discussion by reviewing literature, followed by analysing how productive and revenue generation capacities of the federating units/states in Nigeria has helped in achieving economic development in Nigeria and concluding remarks and recommendations.

II. LITERATURE REVIEW

This paper is anchored on theory of fiscal decentralization. The basic foundations for the initial theory of Fiscal Federalism were laid by Kenneth Arrow, Richard Musgrave and Paul Sadweh Samuelson. Samuelson's two important papers in 1954 and 1955 on the theory of Public Goods, Arrows discourse in 1970 on the roles of the public and private sectors and Musgrave's book on public finance in 1959 provided the framework for what became accepted as the proper role of the state in the economy. The theory was later to be known as "Decentralisation Theorem" (Ozo-Eson, 2005). This framework states that each tier of government is seen as seeking to maximize the social welfare of the citizens within its jurisdiction. The theory, as formalized into the "Decentralization Theorem" by Oates (1972), constitutes the basic foundation for what may be referred to as the first-generation theory of fiscal decentralization. The theory focuses on situations where different levels of government provide efficient levels of outputs of public goods "for those goods whose special patterns of benefits are encompassed by the geographical scope of their jurisdictions (Oates, 1972). This theory is suitable for this work because Nigeria being a federal state, allocates federally collected revenue to the different tiers of government such as Federal, State and Local Governments so as to enable them discharge their constitutionally assigned functions and provide efficient levels of outputs of public goods to the citizens for improved socioeconomic outcomes.

Amaefule and Nwaimo (2021) analyzed the impact of fiscal structure on socioeconomic wellbeing of Nigerian populace under the democratic dispensation. The statutory revenue allocations to the three tiers of government in Nigeria were used in this study to typified fiscal structure while socioeconomic wellbeing was measured with human development index (HDI). Data collected were subjected to Vector Error Correction Mechanism and results indicated that allocation to the federal government showed no significant impact on HDI, allocation to the state governments exhibited significant negative impact on HDI while allocation to the local governments exerted a significant positive impact on HDI. The study therefore holds that the local government system remains the most efficient level of governance in terms of bettering the wellbeing of the people. The study recommended (among others) that the huge fiscal responsibilities allocated to the federal government of Nigeria should be depleted and transferred to the government closer to the populace (the local government).

Amire and Okufuwa (2020) examined the impact of fiscal federalism on Nigeria economic development over the period 1981 to 2017. The study measured fiscal federalism in terms of internally generated revenue of states and allocations to the federal, states and local governments and Nigerian economic development to key development indexes such as per capita income, literacy rate and infant mortality rate. Data for the study were collected from Nigerian Bureau of Statistics (NBS), data achieves of Revenue Mobilization Allocation and Fiscal Commission, Statistical bulletin of the Central Bank of Nigeria and UNDP report. Multiple regression model was used and various tests were conducted. Such tests are unit root test for stationarity of the variables through Augmented Dickey-Fuller and CUSUM test for parameters stability. Empirical result indicated that there is, indeed, a long-run relationship between fiscal federalism and Nigerian development indexes (measured in terms of per capita income, literacy rate and infant mortality rate). All variable measures of fiscal federalism had positive relationship with per capita income excluding revenue allocated to the local governments. However, the study recommended that for fiscal federalism to achieve the desired development outcome in terms of higher literacy rate, increases in per capita income and declining mortality rate of infant local government sovereignty is to be full granted by reviewing subsection (4)-(8) of section 162 of the constitution while the tax jurisdiction power between the state and federal government should be reviewed.

Enefiok (2020) examined fiscal federalism and socio-economic development in Nigeria with specific attention to local government finance. The study adopted fiscal decentralization theory as its theoretical framework. The study employed survey method which involved the administration of questionnaire on 600 respondents from the six (6) geo-political zone in Nigeria. The study revealed that fiscal responsibility and taxing powers still remain considerably centralized with the Federal Government taking the lion share without much impact on the people. The study further revealed that, the most viable and productive taxes are exclusive reserve of the Federal Government which further strengthened its financial muscle vis-à-vis Local Government. Based on this, the study recommended among others, that, both federal and state government should ensure that functional responsibility of local government is commensurate with its financial capabilities and more power should be given to local government to generate more funds in terms of tax regimes.

Olabanji, Oluwatoyin, Abiola, Romanus and Ese (2020) examined the impact of fiscal federalism on economic development in Nigeria for the period 1981–2017 using the auto-regressive distributed lag approach. The data for the study were sourced from various issues of Central Bank of Nigeria Statistical Bulletin and International Country Risk Guide. It was found that revenue decentralization with a coefficient of −2.15 significantly retarded economic development at 5%, while expenditure decentralization with a coefficient of 2.935 significantly increased economic development at 5%. The overall decentralization indicator, captured as simultaneity measure with a coefficient of 4.264 significantly increased economic development at 1%. From the empirical evidence, fiscal federalism will encourage economic development in Nigeria. These findings support and reinforce the need for greater decentralization of fiscal responsibilities to sub-national government.

Morohunmubo, Adeshina and Ajibola (2019) assessed the impact of fiscal federalism and government expenditure on economic growth in Nigeria. Secondary data employed in this work was collected from the Central Bank of Nigeria's (CBN) Statistical Bulletin, CBN Annual Report and Statement of Accounts, National Bureau of Statistics (NBS) and The World Bank Group for years 2000, 2017 and 2018 and part of 2019, respectively. The data covers the period, 1990-2017 on an annual basis. Ordinary Least Square (OLS) was used to estimate multiple regression model where Gross Domestic Product (GDP) as dependent variable and independent variables were interest rate, inflation rate, exchange rate, growth rate of share of federal government from the Federation account, growth rate of share of state government from the federal account, growth rate of share of local government from the Federation account. The results obtained from the regression shows that there exists a positive relationship between the economic growth and share of federal revenue, state government revenue, exchange rate and interest rate from the federation account and economic process in Nigeria. From the above result, it was therefore recommended that a policy to maintain macroeconomic stability by controlling the rate of inflation within the reasonable limit is required to promote economic growth.

Ohiomu and Oluyemi (2017) analyzed fiscal federalism and economic growth nexus in Nigeria to synthesize the extent to which revenue allocation formula has affected the path of economic growth and sustainable national development. The study used the methodology of Error correction model (ECM) in conjunction with diagnostic tests of variables using Augmented Dickey–Fuller unit root tests and Johansen Co-integration tests for robust policy recommendations. Using the Gross Domestic Product (GDP) as the dependent variable and revenue allocation to the three levels of government, inflation and lending interest rate as the independent variables, the results from the study show that revenue allocations and the other variables have significant relationship with economic growth in Nigeria.

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Ahmed, Oloni, Adebanjo and Okeke (2017) analysed the effects of fiscal federalism on the growth of the Nigerian economy. This study made use of data on annual revenue allocations to the federal, state, and local governments, and annual investments, as the independent variable, and annual real Gross Domestic Product as the dependent variable. The study employed the Ordinary Least Square method for estimation, and the Augmented Dickey-Fuller unit root test to check for the statistical properties of the variables. The results showed that it is only at the federal level that allocation is positive and significant. At the local government level, the allocation is positive but not significant and at the state level, it is even negative and not significant. Recommendations were made to improve the impact of fiscal federalism on economic growth in Nigeria; among such include the establishment of agencies to check for fraudulent activities in the lower levels of government, and a development of self-sustainable income levels by the lower levels of government.

The consultation made on past works reveals that much have been done on fiscal federalism and economic growth and development in Nigeria by scholars. It was discovered that most of the studies used the quantitative/econometric methods in analyzing data hence conclusion and recommendations were based on the results of their analysis. This paper deviated from this approach. Though secondary data were used, mostly graphs and tables were used to drive home our argument.

III. NIGERIA'S FEDERALISM AND SOCIOECONOMIC DEVELOPMENT

According to Tamuno (2000) federalism is that form of government where the component units of a political organization participate in sharing powers and functions in a comparative manner through the combined forces of ethnic pluralism and cultural diversity, among others. However, fiscal federalism concerns the division of public sector functions and finances among different tiers of government. In other words, it is the study of how competencies (expenditure) and fiscal instruments (revenue) are allocated among different (vertical) layers of the administration importantly (Ozo-Eson, 2005). Fiscal federalism is a set of guiding principles or concept that helps in designing financial relations between the national and sub national levels of government (Abada, Omeh, Ovaga and Ugwuanyi, 2020). As a subfield of public sector economics, fiscal federalism is concerned with "understanding which functions and instruments are best centralized and which are best placed in the sphere of decentralized levels of government". It also refers to how federal, state, and local governments share funding and administrative responsibilities within our federal system.

Components of Revenue Allocation Formula in Nigeria

The two components of revenue allocation formula used in Nigeria for the disbursement of the Federation Account as identified by Abada, Omeh, Ovaga and Ugwuanyi (2020) include:

a. **Vertical Allocation Formula (VAF):** This formula shows the percentage allocated to the three tiers of government i.e., Federal, States and Local Governments. This formula is applied vertically to the total volume of disbursable revenue in the Federation Account at a particular point in time. The vertical allocation formula allows every tier of government to know what is due to it; the Federal Government on one hand and the 36 States and 774 Local Governments on the other.

b. **Horizontal Allocation Formula (HAF):** The formula is applicable to States and Local governments only. It provides the basis for sharing of the volume of revenue already allocated to the 36 States and 774 Local Governments. Through the application of the principles of horizontal allocation formula, the allocation due to each State or Local Government is determined.

Thus, it can conveniently be concluded that the vertical allocation formula is for inter-tier sharing between the three tiers of government while the horizontal allocation formula is for intra tier sharing amongst the 36 States and the 774 Local Governments in Nigeria.

Problems of Nigerian Fiscal Federalism

Some of the problems of Nigerian fiscal federalism as noted by Odigwe and Aibieyi (2015) are:

i. Functions and Tax-Raising Power: One of the problems in Nigeria fiscal federalism is the allocation of functions among component units of the federal system i.e. the Federal, State, and the Local Government. Thus, there is a problem between the State and Federal Government over tax jurisdiction, what level of government should collect what tax and this has led to the existing perceived imbalance among the ethnic groups.

ii. Problem of Acceptable Sharing Formula: There is a problem with the existing sharing formula. The Federal Government has not justified its lion share of nations' revenue with small responsibilities to carry out, that this has resulted to wastage and high level of corruption.

iii. State and Local Government Joint Account: There is an unbridle diversion of Local Government funds by the state government, to the extent of rendering them idle in development. However, the diversion of Local Government funds is a serious issue and has affected their performance at the local level hence they would have to lobby for what is rightfully theirs.

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At this point, we shall examine how the pattern of federalism practice in Nigeria has affected key socioeconomic outcomes like: poverty level, job availability, and health status and literacy level in Nigeria since the year 2000.

Table 1: Revenue Allocation to the Three Tiers of Government (Federal, State and Local Government 2000 – 2021)

Year	**Revenue Allocation to Federal Govt ((₦'billion)**	**Revenue Allocation to State Government ((₦' billion)**	**Revenue Allocation to Local Government ((₦' billion)**
2000	711.29	402.2	281.9
2001	723.92	404.61	324.23
2002	842.51	442.06	360.23
2003	948.41	489.16	396.8
2004	1,180.81	666.04	507.87
2005	1,456.96	815.18	622.1
2006	1,739.93	976.26	744.81
2007	1,869.19	1,070.86	815.32
2008	2,655.45	1,511.51	1,151.53
2009	2,151.10	1,387.78	992.28
2010	2,416.51	1,538.65	1,252.42
2011	3,237.04	1,921.61	1,459.35
2012	3,451.76	2,084.69	1,583.01
2013	3,711.75	2,251.34	1,708.58
2014	3,404.45	2,062.63	1,563.15
2015	2,600.98	1,597.64	1,205.19
2016	2,081.41	1,347.23	1,011.04
2017	2,564.04	1,681.47	1,263.39

2018	3,483.89	2,210.73	1,667.25
2019	3,344.56	2,174.97	1,636.76
2020	3,028.04	2,117.19	1,583.61
2021	3,198,33	2,308.61	1,619.53
Total	**47604.00**	**31462.42**	**23750.35**

Source: Federal Ministry of Finance and RMAFC Abuja

According to the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC), the current vertical revenue allocation formula is: Federal Government 52.68%; state Governments 26.72%; Local Governments 20.60% and Derivation formula 13%. Figure in table 1 indicates that the Federal Government received a total sum of ₦47604 billion, the 36 states of the Federation got ₦31462.42 billion while the local Governments received a total sum of ₦ 23750.35billion. This implies that the federal government got 46.3% of the total revenue, State governments received 30.6% while the 774 local government councils got 23.1% share of the total revenue from the federation account.

It is important to note that the major principles of revenue allocation in Nigeria are: population size, derivation, equality of states, need or national standard, uniform/even development and fiscal efficiency. None of these principles of revenue allocation reflect the productive capacity of the various tiers of government. Hence there exist states and local governments that produces less but got more in terms of revenue sharing either base on their population size, equality, even development or fiscal efficiency. This method of revenue sharing negates the principles of true federalism in economic sense hence we could describe Nigeria as a federation in just political configuration.

Table 2 captures revenue generated based on the productive capacity of the 36 states of the federation and the FCT. Table 2 reveals that Lagos state generated ₦429.203billion but received ₦139.587 as share from VAT representing only 33% of the total revenue the state generated. Rivers state generated ₦90.293billion but got ₦46.270billion as share of VAT representing about 51 % of the total revenue generated by the state while Oyo state generated ₦64.646billion but received ₦45.136billion as share of VAT which represents about 70% of the total revenue generated by the state from the federation account between January and August 2021. On the other hand, Bauchi state generated ₦5.309billion and received ₦25.613billion (an excess of 483% revenue generated) as share of VAT, Zamfara state generated ₦0.598billion but received ₦35.716billion (an excess of 4283% revenue generated) as share of VAT, Enugu state generated a total sum of ₦5.485billion and received ₦20.729billion (an excess of 378% revenue generated) and Kebbi state generated ₦1.284billion and received ₦22.162billion (an excess of 1726% revenue generated) during the same period under review. This implies that states with very high productive capacity (high revenue generation ability) receive less revenue compared to states with very low productivity capacity and revenue generation ability

Table 2: Revenue generated (VAT) by states in Nigeria between January –August 2021 and the allocation to each of the state.

S/N	STATE		VAT GENERATED ((₦' Billion)	VAT ALLOCATION (₦' Billion)	Difference in VAT allocation and generation ((₦' Billion)
1	Abia		2.290	20.020	17.73
2	Adamawa		3.689	22.260	18.571
3	Akwa Ibom		8.39	27.749	19.359
4	Anambra		5.938	25.001	19.063
5	Bauchi		5.309	25.613	20.304
6	Bayelsa		12.536	17.659	5.123
7	Benue		1.268	24.527	23.259
8	Borno		3.442	25.896	22.454
9	Cross River		2.347	20.478	18.131
10	Delta		13.964	27.854	13.89
11	Ebonyi		7.894	18.768	10.768
12	Edo		8.284	22.588	14.304
13	Ekiti		6.635	19.756	13.121
14	Enugu		5.485	20.729	15.244
15	Gombe		4.028	17.650	13.622
16	Imo		1.941	25.111	23.17
17	Jigawa		3.375	26.369	22.994
18	Kaduna		18.262	32.726	14.464
19	Kano		24.492	47.082	22.59
20	Kastina		3.738	31.539	27.801
21	Kebbi		1.284	22.162	20.878
22	Kogi		3.286	22.282	18.996
23	Kwara		3.471	18.998	15.527
24	Lagos		429.203	139.587	-289.616

25	Nassarawa		2.495	16.872	14.377
26	Niger		3.723	25.042	21.319
27	Ogun		11.823	25.141	13.318
28	Ondo		4.554	22.107	17.553
29	Osun		1.995	24.766	22.771
30	Oyo		64.646	45.136	-19.51
31	Plateau		5.208	21.433	16.225
32	Rivers		90.293	46.270	-44.023
33	Sokoto		4.978	24.219	19.241
34	Taraba		1.756	18.469	16.713
35	Yobe		9.445	20.525	11.08
36	Zamfara		0.598	35.716	35.118
37	FCT		235.794	NOT ELIGIBLE	

Source: Federation Allocation Committee (FAAC) and Federal Ministry of Finance, Abuja and authors' Computation

Given the pattern of generation and allocation derived from Table 2, it is necessary we examine how the productive or revenue generation capacity of the various states in Nigeria fared in some socio-economic outcomes such as poverty, unemployment and literacy level.

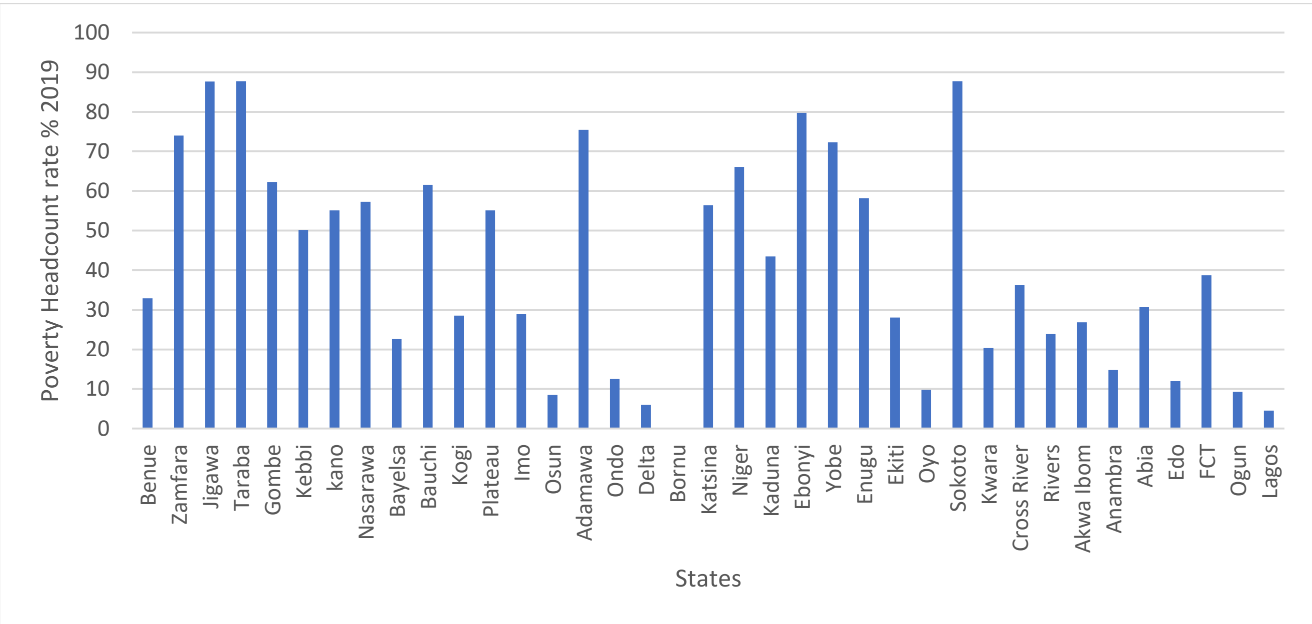

Figure 1: Poverty Headcount rate % in 36 States of the Federation and FCT 2019

Source: National Bureau of Statistics and authors' Computation

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Figure 1 indicates that Sokoto, Taraba, Jigawa and Ebonyi states had the largest percentage of people living below the poverty line as of 2019. The lowest poverty rates were recorded in the South and South-Western states. In Lagos, this figure equaled 4.5 percent, the lowest rate in Nigeria. It should be noted that Lagos state generates the highest VAT value in Nigeria. This implies that Lagos state has the highest productive and revenue generation capacity in Nigeria. Oyo and Ogun states also has very low poverty rate but have very high revenue generation capacities.

Poverty simply means the inability of an individual to afford the basic necessity of lives such as: food, clothing and shelter. In Nigeria, the yardstick for measuring poverty is when a person has an availability of less than ₦137400 (about $334) per annum. In like manner, a person having less than ₦87800 (about $213) in a year available for food is said to be living below the poverty line according to Nigerian national standards. In total, 40.1 percent of the population in Nigeria lived in poverty as at 2021 World Bank Report. Given the data in figure 1, only about 18 states had poverty headcount rate around 40%. This implies that 50 % of the states in Nigeria had more persons living in extreme poverty.

Available statistics from the National Bureau of Statistics and the World Bank also revealed that on an average, 21.4 % of the Nigeria's population suffer from hunger and starvation between 2018 and 2020. People in severe food insecurity would go for entire days without food due to lack of money. For over the last five years, the prevalence with severe food shortage among Nigerians has been rising, as the demand for food keep increasing due to a fast-growing population, low food production and insecurity.

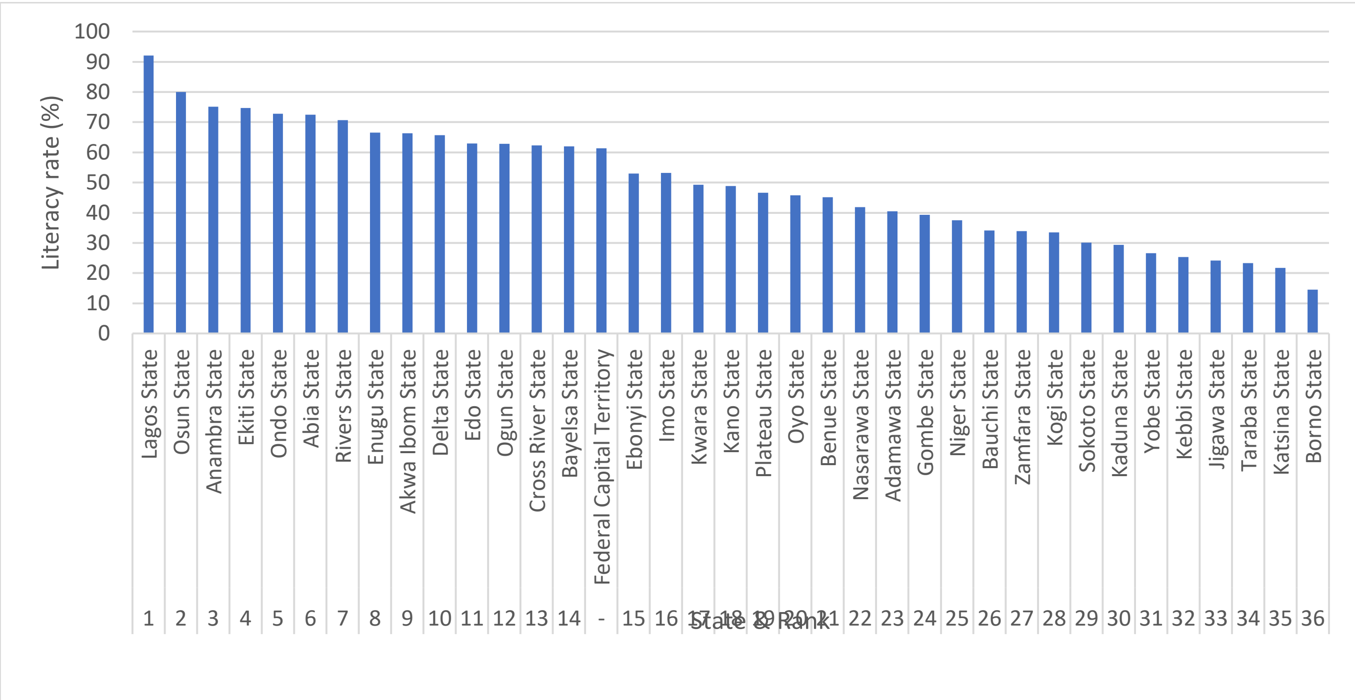

Figure 2: Literacy rate by States in Nigeria 2012

Source: UNESCO 2012

Figure 2 shows that Lagos, Osun, Anambra, Ekiti, Ondo, Abia and Rivers states had the highest literacy rate as at 2012. Among these leading states in terms of higher literacy level two of the states Lagos and Rivers are states with very high revenue generation capacities. Just like poverty reduction, the information in figure 2 indicates that states with very high productive and revenue generation capacities have higher propensities for high human capital development and economic development than those with very low productive and revenue generative capacities.

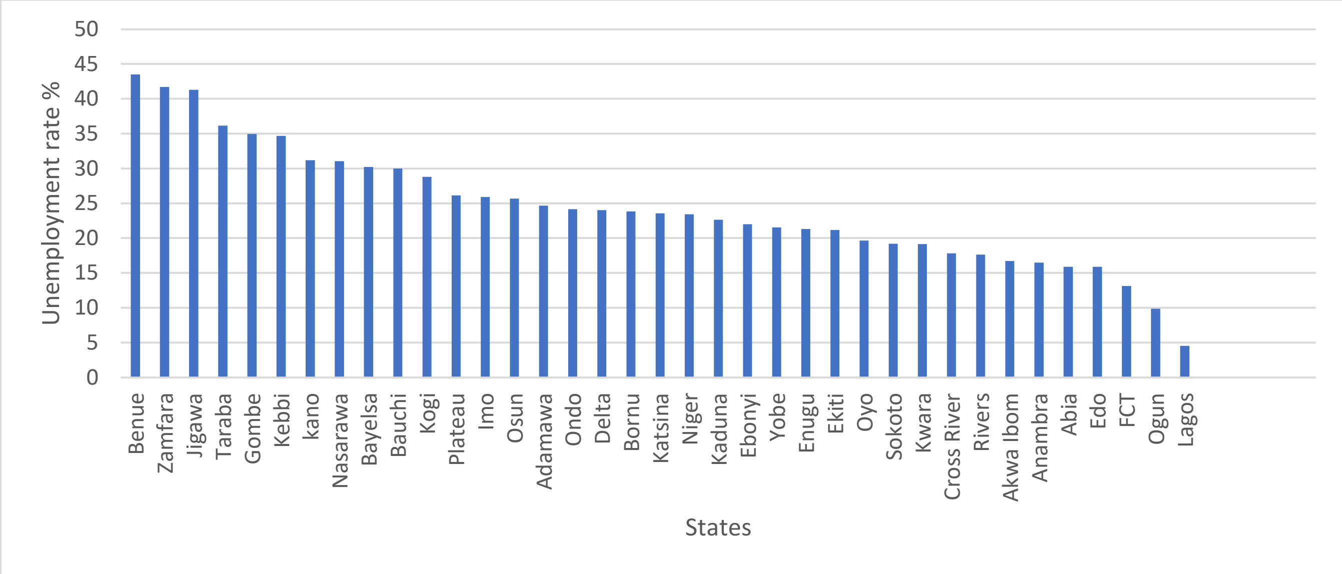

Figure 3: Unemployment rate in states of the Federation and FCT 2020

Source: National Bureau of Statistics and Authors' Computation

Figure 3 reveals that Benue, Zamfara, Jigawa, Taraba, Gombe and Kebbi recorded unemployment of at least 35% and above hence ranked the highest in term of people with means of livelihood as at the end of 2020. This was based on the most common international definition of unemployment which sees jobless people to include persons aged 15 years to 64 years old who were available for work, actively seeking for job, but were unable to find work. Lagos state, Ogun state and Rivers state with high production and revenue generation capacities had unemployment rate below 20 %. This further implies that states with higher production capacity are likely to create more jobs, reduce poverty, improve human capital and achieve economic development faster than those with low productive and revenue generation capacities.

IV. CONCLUDING REMARKS AND RECOMMENDATIONS

Our analysis and discussion so far show that states with high production and revenue generation capacities were able to reduced poverty, create more jobs and improve literacy and human capital in spite of the federal government using most of their revenue to service states with less revenue generation capacity. The paper also reveals that almost all the states with very low production and revenue generation capacities have very high poverty level, unemployment and illiteracy level. Lagos, Rivers, Oyo and Ogun states were found to have generated more revenue than the rest states of the federation hence achieved higher level of economic development or socio-economic outcomes than other states. This implies that if the states or federating units are allowed to produce based on the available resources they have and pay tax to the federal government, the states will achieve higher level of development than what they have now. It is important to note that revenue allocation principles in Nigeria which allocates revenue based on population size, land mass, equality of state, even development among others have made some states lazy and less productive hence 80% of the states cannot pay salaries and carry out day-to-day business of governance without allocation from the federation account.

Based on these findings, the paper recommends the scraping of the present principles for revenue sharing and the enthronement of the derivation principle in which the federating units produce and pay tax to the central government as measures toward achieving sustainable development in Nigeria.

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