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Revenue Allocation and Economic Development in the South-Eastern States in Nigeria: 1986-2016

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ABSTRACT

Economic development in Nigeria has been a serious challenge despite the huge revenue allocated to the three tiers of the government on a monthly basis from the federation account. This recurring decimal has left the country in a pitiable condition with inadequate infrastructures to carry on the economic activities. The study examines the extent to which revenue allocation enhances economic development with particular reference to the south-eastern states in Nigeria using time series data obtained from CBN Statistical Bulletin, which covered a period thirty (30) years from 1986 to 2016. Ordinary Least Squares technique was employed and documented in the methodology of the study. The study attributes this poor performance to misuse of resources and suggests that more stringent measures be employed by the government to fight graft in the public sector and among government officials. This will help to curb corrupt practices and ensure efficient and effective use of resources to boost economic development. It can be deduced from the study that the level of poverty and inequality in Nigeria varies across the six geopolitical zones in Nigeria. Poverty in Nigeria is partly a feature of high inequality which manifests in highly unequal income distribution, differing access to basic infrastructure, education, training and job opportunities. High inequality could undermine the country's prospects of achieving the MDGs. Major findings in this study include; the socio-economic status of the south-eastern states and local councils are influenced by unequal sharing of revenue accruing to them from the federation account; official corruption in the process of project execution and interest to share in the revenues accruing to states from federation account has a strong influence on the demand for new states. The study recommended some measures to ameliorate these challenges.

Keywords: unequal sharing of revenue**,** revenue allocation, economic development, federation account, resources, Nigeria.

INTRODUCTION

Revenue allocation has been referred to as the criteria, process and method of sharing a federation's financial resources among the various tiers of government in the federation in such a peaceful way that guarantees development, progress and enhances unity [1,2]. [3] defined revenue allocation as themechanism for the sharing of the country's financial resources among the differenttiers of government in the federation, with the overall objective of enhancing economic growth and development, minimizing inter-governmental friction and promoting national unity. According to [4] revenue allocation has been described as a method(s) of sharing the centrally generated revenue among the different tiers of government and how the amount allocated to a particular tier is shared among its components. From the various definitions, it is pertinent to establish that revenue allocation is the distribution of a country's revenue among the various levels of government in such a manner that guarantees economic development. The definitions of [5,6] have better described the focus of this study, which seeks to evaluate the impact of federation account allocation and internally generated revenue on economic development in Nigeria. It is important to note that revenue allocation to the three tiers of the government is major for the economic development, which is also known as fiscal federalism [7]. Economic

growth theories maintain that revenue allocation is meant to enhance economic development [8,9]. Therefore, the revenue allocated to the Nigerian federating units is to carry out their various constitutional expenditure responsibilities that enhance economic development in the country [10]. However, this major aim of revenue allocation has not been achieved over the years. For several decades now, sustainable economic development has eluded the country due to mismanagement of revenue intended to be used to develop the country. The revenues allocated to the three tiers of the government for all these years have ended up in private pockets, thereby leaving the country underdeveloped. From 1986 to 2016 the study examined, revenue allocations to the federal government, state government, local government and South-eastern States Derivation have been accounted to be N72,120.01B, N20,270.72B, N10,357.03B, N12,415.84B respectively [11,12]. These figures are not commensurate with the poor level of economic development witnessed in the region in particular and in the country in general. The ugly situation has led to arms carrying and destruction of oil pipelines by the youths in the Niger Delta region of the country. There is lack of infrastructures and roads to boost business activities in all parts of the country, yet so much money is allocated to the three tiers of the government on a monthly basis both for recurrent and capital expenditure.

Objective of the Study

The major objective of this study is to determine the impact of revenue allocation on economic development in the South-eastern states of Nigeria. The study specifically seeks to:

1. Examine the impact of revenue allocation to federal government (FG) on per capita income (PCI).
2. Investigate the influence of revenue allocation to South-Eastern state governments (SESG) on per capita income (PCI).
3. Evaluate the effect of revenue allocation to local government councils (FG) on per capita income (PCI).
4. Establish the impact of South-Eastern States Derivation (SESD) allowance on PCI.

Study Hypotheses

To pursue the above study objectives, the following null hypotheses were formulated: Ho1: FG does not havesignificant impact on PCI.

Ho2: FG does not significantly influence PCI.

Ho3: FG does not affect PCI significantly.

Ho4: SESD does not have significant impact on PCI.

METHODOLOGY

The study made use of ex-post facto and descriptive research designs. The reasons underlying the adoption of these two research designs are that the research data are all historical in nature which implies that they were already in existence as at the time of this study (ex-post facto). The descriptive research design availed the opportunity to numerically collect the data and statistically analyzed them to arrive at the results which serve as empirical evidences in this field of study. All data on PCI (dependent variable), FAFG, FASG and FALG (independent variables) were gathered from the CBN Statistical Bulletin, 2016 edition. The study made use of Augmented Dickey Fuller Unit root testing to establish stationary of data to avoid spurious regression result. Ordinary Least Squares (OLS) method was used to perform the multi-regression analysis with the aid of e-views version 9.

The model adopted for the study is specified below:

$Y3 = \beta1\times1 + \beta2\times2 + \beta3\times3 + \beta4\times4 + \mu i$ (9) Where:M

Y3 = PCI

X = determinant of economic development

X1 = FG

X2 = FG
X3 = FG
X4 = EASD
β = determines the relationship between the independent variable X and the dependent or gradient/slope of the regression measuring the amount of the change in Y associated with a unit change in X.
μi = normally distributed error term.

Data Analysis and Interpretation of Results

Dependent Variable:Per Capita Income (PCI). Independent Variables: FG and SESD. The descriptive statistics of the model on table 1 shows that the standard deviation of the distribution in PCI and FG is a lower spread and are below the mean, while the rest of the variables have a wider spread which is above the mean. The implication is that, the higher the dispersion or variability, the greater the magnitude of the deviation from the mean value. Standard deviation is only a mathematical tool that helps determine how far the values of data are spread above and below the mean. The skewness in FAFG is negative, but the other variables are moderately and positively skewed. The implication is that the negative skewness in FAFG might give room for extremely negative occurrence of economic situations. The distribution inNDSD is the only one that is greater than 3, which suggests more values than the normal distribution and could lead to extreme positive or negative economic outcomes.

Table 1:FAA and PCI Descriptive Statistics

	PCI AT 1ST DIFFRENCE	LOGFAFG AT 1ST DIFFERENCE	FASG AT 2ND DIFFERENCE	FALG AT LEVEL	NDSD AT 2ND DIFFERENCE
Mean	250951.6	5.925880	563.0756	287.6953	344.8844
Median	213241.5	5.953927	84.86500	37.23500	22.50000
Maximum	385227.6	8.928023	2122.920	1125.080	1638.3000
Minimum	173011.9	2.282382	2.720000	0.000000	0.000000
Std. Dev.	71878.01	2.390014	707.0765	372.0361	501.4575
Skewness	0.728329	-0.219547	0.956978	0.968926	1.453453
Kurtosis	1.929100	1.525501	2.503586	2.523030	3.984054
Jarque-Bera	4.903022	3.550428	5.864482	5.974160	14.12770
Probability	0.086163	0.169447	0.053278	0.050435	0.000855
Sum	9034257	213.3317	20270.72	10357.03	12415.84
Sum Sq. Dev.	1.81e+11	199.9258	17498500	4844380	8801086.
Objectives	36	36	36	36	36

Source: researcher's, computation, 2019.

From table 2 above, the correlation (R) of 96.14% (Square root of R-squared) is an indication that PCI and the predictor variables have a strong positive relationship. R-squared of 92.43% signifies the magnitude to which the predictor variables could explain the changes in the PCI. To that effect, it is notable that up to 7.57% could not be accounted for by the factors captured in the model. The Durbin-Watson of 1.44 is within the acceptable limit based on the rule of thumb. The regression result on table 1 reveals that F-statistics is 94.63019 with the pvalue of 0.0000 < 0.05 and is statistically significant and robust. This implies that the revenue allocation to the three tiers of the government and the derivation allowance collectively and jointly impact on PCI positively and significantly.

Table 2: FAA and PCI Regression Result

Dependent Variable: PCIAT1STDIFFRNCE				
Method: Least Squares				
Date: 06/20/18 Time: 13:07				
Sample: 1981 2016				
Included observations: 36				
Variable	Coefficient	Std. Error	t-Statistic	Prob
LOGFAFGAT1STDIFFERENCE	-5563.493	2767.586	-2.010233	0.0532
FASGAT2NDDIFFERENCE	-108.2019	50.91706	-2.125062	0.0417
FALGATLEVEL	478.5012	100.8886 4.	742867	0.0000
NDSDAT2NDDIFFERENCE	-48.96020	20.85055	-2.348149	0.0254
C	224069.1	12736.78	17.59228	0.0000
R-squared	0.924302	Mean dependent var		250951.6
Adjusted R-squared	0.914534	S.D. dependent var		71878.01
S.E. of regression	21013.20	Akaike info criterion		22.87194
Sum squared resid	1.37E+10	Schwarz criterion		23.09187
Log likelihood	-406.6948	Hannan-Quinn criter.		22.94870
F-statistic	94.63019	Durbin-Watson stat		1.442820
Prob (F-statistic)	0.000000			

Source: Researchers Computation, 2019.

Test of Hypothesis

The earlier study hypothesized that revenue allocation to the three tiers of the government and the derivation allowance to the Niger Delta States do not have significant impact on PCI. The t-statistics for all the independent variables provide evidence that the FASG and NDSD have significant negative impact on PCI, while FAFG has insignificant negative impact on PCI. Therefore, the Ho1, Ho2, and Ho4 have been accepted and the alternative rejected. On the contrast, the result shows that FALG has a robust significant positive impact on PCI. Thus, Ho3 has been rejected and the alternative which stated otherwise accepted. This result is in agreement with the findings of Dagwom (2013), Ojide & Ogbodo (2015), Usman (2011), but conflicts with Ohiomu & Oluyemi (2017) who found that FALG had negative influence on the economy.

CONCLUSION AND RECOMMENDATION

From the regression result of this study, the revenue allocation to federal and state reflected insignificant and significant negative impact on per capita income respectively. The derivation allowance to the South-eastern States equally has significant negative impact on per capita income. Revenue allocation to the local government showed significant positive impact confirming the fact that government at the local levels are better positioned to meet the needs of the people since it is closer to the people than the federal government. Therefore, the study recommends more revenue allocation to the local government councils since they are closer to the people and are in the best position to boost economic through attending the Infrastructural needs that are glaring to them. The study is also suggesting more stringent measures in dealing with corrupt practices in the government system, which will guarantee efficient and effective use of resources to achieve the economic goals.

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