

**HISTORICAL DEVELOPMENT OF
REVENUE ALLOCATION IN NIGERIA
(1999-2003) ISSUES.**

BY

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BENIN CITY.**

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**BEING A PROJECT SUBMITTED IN
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CERTIFICATION

We the undersigned, hereby certify that we approve the following research carried out by FRIDAY FAITH LOVELYN in the Department of political science and public Administration, University of Benin, Benin City. In partial fulfillment of the award of a Bachelor of Science Degree in Political Science and Public Administration.



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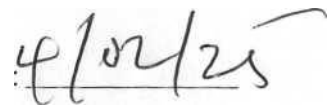


Dr. Y.G.O. Igiebor

Date:



27/1/2025



4/02/25

DEDICATION

This work is dedicated to the glory of God, the Almighty, for his. mercy, strength, provision and guidance throughout my four years stay in the University of Benin.

Also, to my caring parents and siblings whom without their unparalleled love and support I would not have started my programme in the University of Benin.

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I begin by consciously giving God Almighty All the Glorious Glories for everything He has done , still doing and will continue to do in my life, most especially for His love, kindness, provisions and protections over me during my academic journey in University of Benin, Benin City, Nigeria.

Baba God, I cannot thank you enough and I will continue to thank you all the days of my Life !!!.

I Sincerely thank you my dearest Father Mormah and my Lovely Mother, Mrs. Blessing Mormah for all their passionate care, concern, provision, guidance, directions, kindness just to mention but few virtues rendered me since my conception . I shall ever remain very grateful to you both till eternity.

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To my siblings chibuzor and onyeka(solution), Deborah Friday. Thank you very much for your personate understanding, cooperation prayers and love for me before, during and after my academy execution in Uniben I remain very grateful and May God Almighty continue to bless and protect you all and to my aunty Lillian, the rare lady in my life . Usunobu Benjamin, Destiny, May God Almighty continue to bless and protect you for me for all your love, understanding and support during my schooling. Thanks so much may God bless you in Jesus name, Amen.

To my project superior, Osazuwa A. john I shall ever remain grateful to you for your understanding, patience, endurance and guidance during this project work. To my HOD, DR. G.O. Igiebor and all academic staff and non-academic staff who in one way or the other appointed me in accomplish my academic work. I say a big thank you to you all.

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THANK YOU ALL MAY GOD BLESS YOU ALL IN JESUS MIGHTY NAME.

ABSTRACT

It is an indubitable fact that most plans/activities lies of any sep-up may come to naught if here is lack of revenue or finance to effectuate to one roas task. It is also germane to stress that just as air food and water are importance for human existence so also does revenue from the sine-quoin for any human or government existence and survival If *is* therefore sufficient to observe that the issue of revenue allocation and always been highly contentious and invariable generated a lot of conflicting and divergent controversies in Nigeria. The issue has been the allocation between various tiers of government vertical allocation and between resource rich and resource-poor regions (horizontal allocation). More recently, another dimension has been introduced to the vertical issue, namely the allocation between the resources-rich regions, local government and community.

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CHAPTER ONE

INTRODUCTION

1.1 Background To The Study

Revenue allocation is a dynamic process which has been changing with and political conditions of the country, the issues of revenue allocation is partly economic, but mainly a matter of political compromise (Anyanwu, 1993).

The history of revenue allocation dates back to the Origin of Nigeria, one of the main reasons for amalgamation of the Northern and the Southern Nigeria in 1914 by the colonial government was in order to enable the colonial government reduce its subsidy which it had been given to the colony of the North. The idea was to use the surpluses from Southern Nigeria to finance the North. After 1906, when the Southern Nigeria and Lagos became one administrative entity the financial resources of the South increased rapidly. This however was not the case with Northern Nigeria. At this time, the Northern Nigeria has to depend on grants from the imperial government to function.

Due to this, amalgamation therefore, became a ploy by the colonial government to reduce the dependence of Northern Nigeria on British taxpayers.

Revenue allocation is one of the most pressing national issues that cannot be overemphasized in regards to the empowerment of the well being of the citizenry. Successive governments, over the years, have made several attempts to unravel the misery surrounding how to entrench equity in the allocation of the federally collected revenue amongst the different tiers of government that constitute the federation.

In the light of the above stated facts, different commissions and committees had

been constituted at one time or the other to design a long lasting principles and formula, that will put to rest the different agitations emanating from various sections of the federation.

Since the 1946 Richardson constitution, which granted internal autonomy to the then existing three Regions, there have been several attempts to provide equitable allocation formula consistent with the sharing of responsibilities between the federal and regional/state government.

(a) Before Independence: For As-Hoc Revenue Allocation Commissions.

- (i) Philipson Commissions (1946).
- (ii) Hicks-Philipson Commissions (1951).
- (iii) Chicks Commission (1953).
- (iv) Raisman Commission (1958);

(b) Two Post-Independence Ad-Hoc Revenue Allocation Commissions;

- (i) Binns Commission (1964) during the prime minister Balewa government; and
- (ii) Dina Commission 1969 during the Gowon regime;

(c) For Military-Government Issued Decrees, all during the Gowon Regime in

- (i) 967
- (ii) Decree 13 of 1970

iii) Decree 9 of 1971 and

(iv) 1975

(d) Two Comprehensive Revenue Allocation Commissions

(i) Aboyade Committee (1977), established by the Obasanjo Military regime,

(ii) The Okigbo Commission (appointed 21 November, 1979, report submitted 30 June, 1980)

(e) Two Revenue Allocation legislative Act

(i) Allocation of Revenue Act (Federation Account) (1981) during the Shagari Civilian Regime

(ii) Allocation of Revenue Amendment Decree (1984) during the Buhari / Idiagbon Military Regime; and finally establishment of a Permanent National Revenue Mobilization, Allocation and Fiscal Commission (NRMAFC) through decree 49 of 1989, a commission which is entrenched in the 1999 constitution.

The first commission recommended the principle of deviation and progress. The deviation principle was then removed by the Raito commission in (1958). This position was upheld by the Binns commission of 1964. The deviation principle was then later re-introduced by the Dina commission. This was later removed by Aboyade commission. (1977) and the Okigbo commission (1981). The NRMAFC) later reintroduced the derivation principle. Above all, the recommendation has been the principle of derivation and population, in other words, the principle of derivation, even development and population were dominant and yet remain volatile.

Debate about distribution of National resources within federal systems is not

peculiar to Nigeria. However, the Nigerian case is unique in the sense that, the criteria used so far have not enjoyed wide acceptability. Every government in Nigeria has tried to address the problem. One general observation is that changes in the formula are often closely associated with the type of government. Constitutional government tended to adopt formula which are closer reflection of the aspirations of the wider sections of the society than was the case with military government e.g. 1963 constitution and 1981 revenue Allocation Act.

Under the colonial Administration there were not too many problems over revenue sharing because the extent of the powers to the centre and region in respect of revenue was defined. For instance, under the Macpherson constitution of (1951), the revenue order in council provided that public revenue derived from matters stated in the schedule to the instrument itself should belong to the region. It further stipulated the payment to the region by the centre, of annual grants in respect of expenses relation to education and politics. It also asserts that the centre could not interfere with specific revenue allocation to the regions, which to an extent reflect the extent of the independence to the regions.

The problem of revenue allocation first manifested way back in 1953, when the chick commission worked out a sharing formula which made the principle of

derivation the yardstick to be adopted on sharing revenue between the federal and the three regional government. This formula favoured the Western region because much of the country's revenue came from earnings on cocoa export. The North and Eastern regions were highly critical of the sharing formula. The Raiso commission in 1958 deemphasized the principle of derivation. It adopted Need and even Development as the new formula.

It is of course important to emphasize that in those good old days, particularly during the era of cocoa in the West, Palm oil in the East and era of groundnut pyramids in the North, the principle of derivation formed the dominant basis of sharing revenue in the country. However, when oil became the main revenue earner, the percentages of derivation plummeted to 1.5% by Okigbo commission report. Since its inception, especially after the oil boom of the 1970s, the revenue Allocation system remains one of the critical destabilizing factors in Nigeria's federal experiment. Dean and Oshisanni 1984:52-55) have rightly observed that:

One of the characteristic problems of the Nigerian system of public finance arises because a great deal of the revenue of the public sector is presently generated from a single source which is crude oil, neglecting other areas which would have also contributed earnestly to the country's economic development.

One note with concern that the politics of Revenue sharing has since assumed gargantuan dimensions wherein other variables such as Need, population land Mass, Equality of status of states, minimum Responsibility of Government, etcetera, were reduced to the disadvantage of the core oil producing states which invariably are in Minority. It is a statement of fact that oil has become an important source of revenue in this country.

Political observers and some scholars have argued that lion's share of the national revenue given to the federal government runs against the grains of the current global trends in federation where the expectation is that the states and local governments would increasingly constitute the hid of economic development and centers for the provision of social amenities and infrastructure. In this same vein, L.K. Jakande (1985) has argued that:

Nowhere in the World, in any federation, is the dependence of state on centrally collected revenues as acute and critical as world over is revenue divided among states simply on the bases of un-weighted population, where also, is revenue shared equally among states in absolute since.

The fiscal system that has existed in Nigeria so far can be criticized for over emphasizing the distribution of centrally collected revenue without encouraging states to exploit with vigor the resources of revenue within their jurisdiction. Prior to 1966, nobody was talking about National cake because the regions were strong. This was because there were individual imitations and regional initiatives.

The political authority simply decided on how the revenue allocation and the distribution of functions should be done. In spite of the devolution of administrative authority and responsibilities to the region, revenue allocation seemed to have resulted

the centralization of power and resources at the centre to the detriment of the federating units.

Consequently, the states have been left with very limited resources of revenue, their by making them to e financially dependent on the federal government for survival

It is against his backdrop the researcher, in the course of the study, would examine the various commissions and committees, principles and formula, and controversial issues that predicate on revenue sharing in Nigeria. Some of these contending issues surrounding the allocation of an acceptable formula for sharing of revenue that would be discussed are among others, the principle of need. Geographical peculiarities; independent revenue effort, the principle of Derivation, even development and some minor issues, attempt would also be made to examine these factors and their effects on the political economy of the country as well as how some of these factors may affects the oil producing areas of Nigeria.

1.2 Statement of The Problem

The sharing of the accruable revenue for an integral part of political economy has become of utmost concern to most Nigerian's, the learned and the unlearned alike. It has become so delicate and dynamic that there is no constitutional arrangement or existing allocation formula to satisfy the > earnings and aspiration of Nigerian's.

Decisions on what proportion of the centrally generated revenue, should be accruable to the federal government, the proportion that should go to the states and the . _ . vemment. Councils have generated debated and problem in the polity over the . _ - The states have often accused the federal government of holding too large a

- are to entire federal revenue to their detriment, particularly at the local government levels where meaningful development has virtually been made impossible due to their a eprivation of funds and corruption.

The problem becomes even more acute due to the political dimension it has assumed.

The delicate balance of the state and local government finances which depend almost entirely on statutory funds or the shareable portion of the federation account is of great worry to the state administration and local government officials. The danger in this type of dependence is that in the event of any disruption in the vertical flow of these funds from the federal governments, those two tiers of government bound to suffer great distress and calamity.

The problem of fiscal federation has been how to redress the imbalances in the revenue / expenditure positions of the different levels of government, It is therefore worthy of note to remark that the adjustment process evolved to address the contentions issues have led to fiscal, leaving the state and the local government councils to depend solely on the centre for their finances.

From the aforementioned facts on the dimensions which revenue allocation have assumed in the country, the researcher is focusing the problem of this study on:

Why previous attempt to share the national cake failed to satisfy the federating units of the different levels of government?

- ii) Why revenue allocation strategy itself has not been successful in Nigeria;
- iii) Political factors and forces that conspired to end the principle of derivation in fiscal federalism;
- (iv) A comparative analysis of the derivation principle and the percentage adjustment system, which is currently in vogue;

1.3 Objectives of the Study

There have been dozen of controversies surrounding acceptable formula for the sharing of revenue in Nigeria. Consequently other things:

- (i) To trace the historical background of revenue sharing in Nigerian in reviewing the various commission which looked into past revenue allocation exercise;
- (ii) To also evaluate the main problems associated with revenue allocation formula in Nigeria;
- (iii) To assess the extent to which Nigeria Revenue mobilization Allocation and Fiscal commission has helped to alleviate the problems of revenue allocation in Nigeria.

1.4 Research Questions

The following questions have been formulated to guide this study thus;

- (i) Is there equity or imbalance in the allocation of resources among the federating units in Nigeria?
- ii) Will equal revenue allocation among the six Geo-political zone bring about effective political and economic development in Nigeria?

- (iii) What factors come into play in arriving at a formula?
- (iv) What has been the responses or reactions of the different federalizing unity in the search for an acceptable revenue allocation formula over time?

1.5 Significance of the Study

The significance of this study lies primarily in the fact that it will.

- (i) Seek to provide an Objective and honest study of the nature of the Nigerian State in relation to revenue allocation process since 1960-2003;
- (ii) Being able to find out why over time, no single revenue allocation formula has been declared satisfactory by interest groups;
- (iii) Being able to identify the reasons and rationality of adopting resources;
- (iv) Examine and re-examine the justification for a review of the existing revenue allocation formula, and suggest what the position will be when better looked at,
- (v) To contribute to the body of knowledge and also to make recommendations this would be very useful for adoption.

1.6 Scope and Limitations of the Study

The study will attempt to cover the historical evolution of revenue allocation and its principles from 1946, but emphasis will strongly be placed on the post independent era, to year 2003.

However, it is pertinent to stress that a serious limitation arose from the dearth relevant information and figures from government functionaries which resulted in several repeated visits to elicit the few vital information requested for the study.

1.7 Research Methodology

Since the study is essentially descriptive the sources of data will generally rely on secondary sources of data, which include textbooks, newspapers, seminar papers, documented works, magazines, speeches, and journal etcetera.

1.8 Organization of the Study

The study is organized as follows:

Chapter One: Provides information on the thrust of the study which include. The introduction of the study, statement of the problems, objectives of the study, Research Questions, Significance of the Study, Scope and limitations and organizations of the study.

Chapter Two: Is a review of related literature. It allows for a review of published materials pertinent to the subject matter and the various revenue allocation commissions in Nigeria from the colonial era to the present with particular emphasis from 1960 to 2003. the theoretical framework of this study will all be discussed in this section.

Chapter Three: Deals with the theoretical overview of the study including the inter-government fiscal relations in Nigeria and takes a closer look at the theoretical under findings of fiscal federalism.

Chapter Four: Contains presentation and analysis of the research questions.

Finally, the last chapter which is Chapter Five is the Conclusion, Summary and Recommendations which the research have made for further research in the field.

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CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 FISCAL FEDERALISM

According to Taiwo (1999:4), federalism is essentially above government structure in the multilevel sense, rather than with a particular level of government functions. Fiscal federalism is essentially about the allocation of government spending and resources to the various tiers of government.

Ramp Mai (1979) also observed that classical federalism is a system where communities accept to live and work together normally in a limited number of matters and for those matters only; but are determined at the same time, to preserve their separate identities and to remain the competent authority in their own territories for the regulation of other matters.

To Olowoni (2000:247), where written constitutions are adopted, the distribution of governmental responsibility functions, powers authority are sometimes enumerated in the institutions in broad outlines. This list of responsibly, functions, powers and authority of the central, national or federal government is called the exclusive list. This list includes all public goods and services with the nation as a benefit region e.g. defense, police protection, foreign policy international relations, the national currency, the money supply, and the stabilization of the national economy benefits everybody and therefore, naturally belongs to the exclusive list.

According to Offiong (1999), the federating units in a federal system .untarily give up sovereignty in several aspects of their operations in order to _hieve the benefits of

national unity in some areas of government activities, while retaining a measure of autonomy in others. It can also be defined as a compromise situation in a multinational state, between two types of self-determination, i.e. the framework of government which guarantees security for all in a nation state on the hand, and the self-determination of the sub-national units to retain some degree of their identities on the other.

There is a wide-spread Agreement among all the interest groups in the Niger Delta that the return to true federalism is a critical re-requisite for the development of the Niger Delta. This opinion is also united on the point that the 1979 and 1999 constitution are nothing but civilian version of Decree 34 of 1966 which abrogated the provision of the federal constitution of 1960 and 1963 and created a unitary system of government for Nigeria (Odje, 2003:23). True federalism from this point of view means a return to the cardinal principles set out in 1960 and 1963 constitutions in Nigeria.

The agitation for fiscal federalism and decentralization became intensified under the present democratic development among the components that constitute the Nigeria federation.

2.2 Conceptual Framework

The Encyclopedia of social sciences refers to Revenue Allocation "as (lie procedure or method of public fiscal operations in a federal state".

McClure (1995), defines revenue sharing otherwise called Revenue Allocation "as any scheme for balancing taxing and spending between tiers for government, especially in a federal system". Without revenue, sharing, rich regions of a country will be able to rise more than poor regions, but require spending less. Therefore, any country in which there is pressure for redistribute politics will face pressure for revenue sharing even if it is among tiers of government. It also has to do with the different levels of governments and this have been one of the most Contentious is the matter that more of the formula evolved various times by a commission or by decree under different regimes since 1964 has not gained general acceptability among the component units of the country.

It is an undeniable fact that issue of Revenue Allocation is highly sensitive, dynamic and controversial ostensibly due to the fact that it borders on the sharing of the National Cake.

In federalism, one of the major sources of revenue collected is through taxation which could be effectual either directly or indirectly. The taxes area & exclusively collected and jointly shared. However, the problem of allocation arises from the redistribution of these taxes', which are from the redistribution of these taxes, which are usually in the form of statutory allocation and grants.

It is instructive to observe over the years that, the formula which refers to the stems of weight or the relative weights (percentages) assigned as well as me rv.nciple of revenue.

Allocations include Land Macs, population, Needs, Fiscal Responsibilities, Derivation etc Cetera. Furthermore, it is important to stress that hile grants were supposed to be discretionary; rather they become discrimination in me process of disbursement.

The summation of all these thus generated a lot of controversies that have given birth to the setting up of the several committees / commissions with a view to address the intractable problems associates with Revenue Allocation. The reasons fore the controversies of course cannot be far fetched.

2.3 THE POLITICS OF REVENUE ALLOCATION

Nigeria has been enmeshed in controversy over what should be a "satisfying revenue sharing formula" between the three tiers of government (Federal, State and Local Government), this is because government exists to carry out certain functions in the society and when these functions are not performed the result will be chaos and a political instability these functions include efficient allocation of resources, income and economic stabilization.

The issue of Revenue Allocation has always generated a lot of rancor amongst the heterogeneous units in Nigeria. Harold Lasswell defined politics "as who gets what, when and how", Dr. Alien Shick defined politics "as making some one else pay for your benefits".

These above definitions lay theoretical underpinnings of revenue allocation in Nigeria looking at historical evolutionary development of revenue allocation. Over the years, the problem appears to be on who occupies political at the center and his disposition as to his perception of the national interest

It is worthy to note that the federal government controls major sources of revenue in the country are matter the location of that revenue source. These include petroleum profit taxes, mining royalties and rents company taxes, customs and excise duties, value added tax (though this is later shared amongst the three tiers of government), and income tax of personnel of the Armed Forces and Ministry of External affairs. On their own part states and Local government are left with property taxes income taxes of resident of the state, motor vehicle licenses fees, and all sorts of levies which collectively account for less than 30% of state expenditure needs, and less than 10% of local government needs. It is due to this imbalance in the controls of major sources of revenue and the constitutional responsibilities imposed on the state and local governments that is the basis of discord of revenue sharing.

Undoubtedly, it is sufficient to remark that revenue is the hallmark whose roles are pivotal and unarguably provide potent ingredients for developmental activities in all ramifications. However, it must be stated that the problems being encountered by Nigerian are not peculiar to her as a developing nation. It is interesting to observe the countries such as Canada, Australia, and the United States of America et cetera also ? rating federal system of government have had similar experiences during their transition periods

According to Awa (1979:27), Federal States such as Australia Malaysia and A.dia have special bodies entrusted with the task of making the allocation between the center and the units, similarly the common wealth grants commission in Australia the finance commission in India and the National finance council of Malaysia. It is interesting to mention that each of these bodies has a status which makes it independent of both levels of government and this status is helpful in rendering formula devised acceptable. Thus one may safely aver that perhaps the notable developments in these countries informed the Nigeria situation with the establishment of a permanent agency known as the National Revenue Mobilization; Allocation and Fiscal Commission (NRMAFC) BY Babangida Administration in 1989.

According to Ike, (1981:104), some of the problems usually associated with Revenue Allocation in Federation include how to share the Revenue collecting power as well as the basis for sharing federally collected revenue among the different levels of government. He further noted that from the history of Revenue Allocation in Nigeria, it could be said that an objective formula with internal consistency has long eluded the state agents entrusted with the problems of searching for acceptable solution. Over the years, the experience has been that objective formula was internal consistency are lacking while negotiations and political considerations loom largely in the determination of the final outcome. He expressed (lie view that these

Considerations ought to overlook the underlying economic and demographic factors on which an optimal solution must be based; the experience in Nigeria is that those with repository of power would always want to direct an allocation formula in their own favor. Consequently terms like Even Development, Derivation, Equality of states, population, Land Mass, National Interest etcetera, are manipulative to suit each areas of economic interest.

Olaokun (1977:109) had aptly observed that the problem of revenue allocation was not present in Nigeria until after the introduction of the Quasis-Fedra-1 system of government in 1946. He noted that the vicissitudes that attended the problem of revenue allocation in Nigeria have continued to change as different revenue allocation either gained or lost in emphasis under subsequent governments and regimes. He concluded by observing that the search for an acceptable revenue allocation formula is necessary forced by the complexity and dynamics of federal finances.

According to Oyovbaire (1983:35), in any country where federalism is the political arrangement, many problems are quite internet, such as the division of powers among the constituent governments and revenue sharing, lie further observed that it is difficult if not impossible in a federation to assign some sources of revenue to the federal government and other sources of revenue to the state governments in such what the resources available to each unit of government will always match its obligations. Revenue yields and expenditure needs of the different units and levels of government are never constant and hardly lend themselves to any long-term fixed

apportionment. He concluded by saying that while the federal government enjoys the exclusive benefits of some shared among the government levels and the precise allocations vary from time in accordance with circumstances.

Wheare (1964) noted and warned that the frequency of review of revenue sharing formula in federal systems of government should not be surprising to anyone because it is difficult to talk of an ideal allocation of revenue in a federal system of government. He further noted that there could be no final solution to the problems. He therefore opined that federal systems of government needed adequate machinery to make the necessary adjustment and the re-allocations in the light of changing circumstances

Some area of the country is of view that the oil producing states have not contributed anything towards mining the minerals unlike agriculture where the farmers put a lot of labour and money to produce their crops.

This is a common place in the Northern part of the country and some other non-oil producing states in Nigeria. This is especially contained in their memoranda in suggestions for appropriate revenue allocation to the National Mobilization Allocation and fiscal Commission.

Ibrahim Hassam (2005:19), has argued that there should be no increase what so ever and he counters all the arguments for derivation. According to him, with the 13% derivation already been paid and other funds committed to NNDC by the federal

. •. emment and the contribution of the oil companies do not reach the ordinary people :
ut are only misappropriated by their elitist leaders.

Ibrahim Shekarau (2005:15) in the same vein has argued that the oil producing states as not need any increase percentage in allocation from the federation account. According to him, government has not properly managed current allocations, he further stipulated that what should be of importance should not be the amount allocated but the work and the purpose intended to serve.

In response to the positions of the above,. Emmanuel Okoro (2005:19) said: "The people of the North and their cohorts are politicizing the issue of revenue allocation so as to in exchange compromise sensitive political and economic positions. Failure to re-structure the revenue formula in increasing derivations might endanger the entire socio-economic and political fabric of not only our nascent democracy but also the entire inter and intra relationship of the Nigeria Nation-hood.

According to Sagay, the summary of revenue allocation in the 1960/1963 constitution, 50% of proceeds went to all regions from which minerals, including mineral oil, were extracted; 30 percent went into the distributive pool (for all regions, including the producing regions); 20 percent of import duties went into distributable pool, import duty on petrol and diesel consigned to any region was refundable to that region and this was also applicable to excise duty in tobacco.

Clark (2005:18) also corroborated this statement when he argued "it was the 50 percent derivation collected by the North and Western regions that their
_?vemments were able to develop the North and West in those days. Examples are the

Cocoa House, Ibadan and other edifices in Yoruba and Hausa lauds.

Melford Okolo (1980), one time governor of Rivers State regretted that derivation principle of revenue allocation has continued to be overtly thrown overboard since crude oil became the main stay of the Nations economy and simply because the main contributors of oil wealth are the minority zone. He contended further that, for this singular principle gathered our finding fathers and make for federalism to be adopted, and any way to further undermine. This basic principle would amount to gradual erosion of the foundation of the country.

It should also be pointed out that apart from the derivation principle that of even development is not in anyway adhered to. The seemingly imbalance political structure of this country tends to shift bigger development project in favour of the dominant group. A case in point is the Petroleum Trust Fund (PTF) set up by the government, which is financing major development projects in some sectors of the country as the detriment of others.

According to Oriakhi (2002:231), there is also the problem of unavailability of required data. Right from the Philip son's Commission of 1946 to the Abovade's Commission of 1877, the problem of measurement have seemed insurmountable and have brought haven to each successive effort at devising a workable formula, and in some case it has led to the abandonment of particular principles and even the rejection of the entire commission work.

The incessant changes of the revenue allocation formula and the engender high .
enue base. He is of the opinion that increase fiscal incentives investment in non-oil ec.ors
can ultimately generate diversified revenue base. The federal government _ght to dissolve
some of its tax powers to the state governments and reward internal aeration efforts of the
state governments in order to stimulate healthy fiscal dependence and competition among
states. The monetary flow to each state in tied ;; revenue allocation, and this is expected to
speed up their development efforts. A ; ursory love of the formula adopted in the
distribution of the national resources from inception reveals that the third tier of
government the local government is the least remunerated, incidentally, this tier of
government is expected to bring government never to the people and to facilitate rural
development.

It is rightly observed that the constitution amendment of 1966 vested the federal
military government the power to make law for Nigeria on any matter with this
arrangement, the formula for sharing revenue came under the dictate of the federal
government and those who may not be okay with the formula were left wife no option than
follow suit.

2.5 CONSTITUTIONAL PROVISION

The sharing of revenue collected by this Federal Government is mandated by the
Constitution Tracing the root of the problem of 1999 constitution Adelvbi argued that,
the constitutional provision of "equity of states" had been wrongly interpreted and applied,
thereby given some states undue financial advantage over others. A brief
recap of the 1000 constitution provide clear unambiguous interpretation of the use of

derivation principle in sharing revenue accruing to the Federal Account from all sources as follows: Section 162 subsection 2 of the Nigeria constitution states that:

The president, upon the receipt of advice from the Revenue Mobilization Allocation and Fiscal Commission, shall table before the National Assembly proposals for revenue allocation from the Federation Account, and in determining the formula, the allocation principle especially those of population, equality of states internal generation, Land MUMS, terrain as well as population density. Provided that the principle of derivation shall be constantly reflected in any approved formula to the Federation Account directly from any natural resources...

However, for the purpose of sharing the natural revenue to local government, the constitutional provision of equality of states has been wrongly applied. From the point of view of the constitution, what is stated is the Equality of states as one of the allocation principles and not Equality of Local Governments therefore, replacing the former (Equality of states) with the later (Equality of Local Government) in the calculation of allocation and indices and the disbursement of amount standing to the credit of Local government councils, had drastically reduced the monthly revenue allocated to states with lower number of Local government councils.

He further argued that "why the attention on Equality of States? According to him, this is simply because of all the principles "Equality of States" has the highest weight attached to it i.e. 40 and 45.23 percent respectively for the present and newly proposed (Revenue Mobilization Allocation and Fiscal Commission) formula.

Trends in Derivation Principle

In the early affairs of the Nigerian state, the principle of derivation was recognized in sharing revenue. About 50 percent of revenue generated and put into the common pool was set aside on the basis of derivation while the rest was shared on some agreed formula. This principle was recognized and supported on the colonialists.

However, since the military intervention into Nigerian Governance, that principle of derivations being relegated to the background. According to Yerba Kinns, the principle of sharing revenue on basis derivation is in consonance with the principle of genuine federation.

Aigbokhan (2000) has argued that the principle of derivation has unequivocally attracted the most significant attacks and protestation; to him, it was the dominant criteria up to the mid 1970s.

Following the Aboyade Technical committee on Revenue Allocation in 1977 and the submission of the minority report of the Okigho Revenue Allocation Commission in 1981, the use of this principle has paced insignificantly. The further argued that the principle of derivation was unjustifiably de-emphasized because of the shift in revenue generation from the majority groups that are politically powerful to the minority areas that are politically powerful.

According to Okoh (1985:111-119) in his critical analysis of the Nigeria 1981 Revenue Allocation controversy, he had observed that one interesting revelation from the series of commission/committee and decrees was the constant changing of position by human beings. It is sufficient of mention for example that when reverse sharing was

heavily dependent on the "principle of Derivation" Cocoa, Groundnut, Palm oil etcetera, were the major foreign exchange earners of Nigeria.

He observed that, from 1960s to the middle of 1970s the revenue sharing formula was having dependent on the principle of derivation a situation wherein Revenue was allocated to the regions/state according to their proportionate contributions to the over-all National finances.

He also observed that today, the situation has changed tremendously with oil replacing the rest products thus emerging as the major foreign exchange earners for the country.

However on a sad note, he observed that those who favoured the principle of derivation during the era of Cocoa, groundnut and palm oil suddenly had a U - turn by now advocating for factors that tend to favour them since their state are not major producers of crude oil.

According to Douk Polaghan (2—5) warned and noted that there will be no fortune for youth when the country depends solely on oil revenue the concluded by saying that "Nigeria would have been divided if crude oil is not in the Niger Delta area. Enough is enough, lei us move forward.

Julius O. Ihonvbere and Timothy M Sham (1982) in the same vein have argued that local comprador in the oil state, claiming to represent their people fought hard to keep a large part of oil rents basing their case on the principle of derivation and the

distributive consequence of oil productions; while the non oil rents bourgeoisie on the other hand fought against derivation and tried to get as much as possible from oil rents, basing their arguments on equity and need.

During the late CJeneral Sanni Abacha Administration, no substantial review of both vertical and horizontal revenue allocation scheme was undertaken, rather, the regime, regard by many as the most brutal and dictatorial in Nigeria's history, relied on NRMAFC for minor adjustments here and there.

On the whole, what the practice of fiscal federation in Nigeria has showing, particularly since independence, is the tendency towards policies that negates the tenets of true federalism thereby eroding the fiscal autonomy of the state governments.

Alfred Hence has argued that as long as there are conflicting demands by the components units of government from the centre; revenue is sharing cannot escape the vagaries as politicization. The fundamental issue that will put an end to politicization according to him, is when government comes to terms with restricting the country as a federation and run as such, where the component units keep proceeds of their resources, but set aside a pail to run the center. According to him, the path to "survival justice and economic wisdom" is to turn to the universal and genuine formula for revenue sharing based on 50 percent derivation, 35 percent to the distributable common pool and 15 percent to the central government as practice the world over. Insisting on a realistic revenue sharing formulas is a moral issue, not politics, he said.

The dialectic of revenue allocation has more ominous reverberations for Nigeria's federalism than in thereto acknowledged, especially by the post independence Revenue

Allocation Commissions, The instabilities, which ensued from this phenomenon and the mad equate the exultant promise of a dynamic and integrated polity.

The literature review is critical of the present revenue allocation formula and called for its change in line with the principle of a true federation.

2.6 THEORETICAL FRAMEWORK

It is generally acceptable that theories are bodies of empirical, logical interconnected generalizations aimed at vivid description and explanation of events the word over. The orientation of this research is to combine two theories and to combines two theories to examine the Historical development of Revenue Allocation in Study was the incremental model and the systems theory.

2.7 INCREMENTAL THEORY

Ikelegbe (1994:38) opined that the incremental model was postulated by Robert Dahl and Charles Lindlom. The model posits that decision makers only consider limited values, limited goals limited alternatives and only realistic solution to the desired goals.

The goal is not the one time radical bold and major solution to societal problems, but marginal or incremental policies or changes the incremental policy making proceeds in a chronological series, made and remade endless by a succession

of incremental changes, building out from the current situation step by step and on small degree. By so doing, the policy maker reduces the risk of uncertainty and ensures acceptance and consensus.

In the Nigeria Milieus, so many issues come to focus. Thus the Urhobo foundation (1998:35), noted with great concern the economic enslavement of the oil producing areas through the massive reduction of the application of the principles of derivation from 100 percent to 50 percent in 1951 and further, reduction to 45 percent in 1970, between 1971 and 1985 the Aboyadae technical committee and Okigho commission removed derivation principle. Following a nation-wide protest and discontent, derivation, which was 1.5 percent, was then increased to 3 percent in 1990 recommended and approved 13 percent.

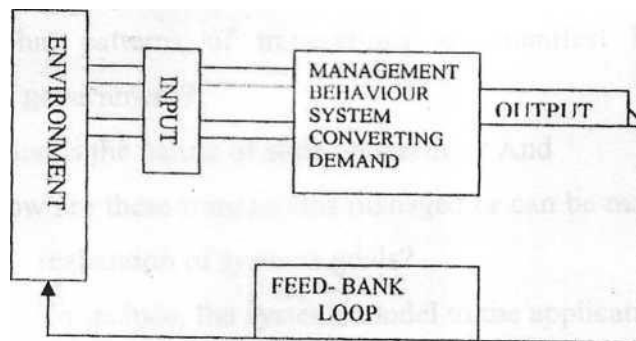
It is instructive to note that ever since then, the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) which has been assigned the review of revenue allocation formula, have not been able to assume its responsibilities adequately posing the retention of the Fascist military degree.

2.9 SYSTEMS THEORY

The 'System's concept is used were following Talcott Parson (1951), Ludirig Von Bertalazy (1950) David Easton (1957) and (1965), Katz and Kahn (1966) and Robert Chin (1969) to denote an analytical scheme for unraveling complexity. By it, a phenomenon (be it physical, biological, or social) is conceived as an organized,

purposeful whole composed of structurally and functionally identifiable through interrelated parts.

Thus, the concept of system functioning can schematically be represented as follows.



In Nigeria, the federal government has the widest jurisdictional functions followed in descending order by the state and local government respectively. The resources of the state are the quantum of facilities (funds, authority, minerals, human and physical) available or projected to be available at any point in time for implementing the agreed objectives of the states. Once objectives have been defined, the sharing of resour

ces should be based on principle of matching responsibility with authority.

In a federal state like Nigeria, the significant areas of interaction include;

- i. The federal center,
- ii. The state or regional administration.

- iii. Local authorities and toward national integration and development.
- iv. Extra-governmental bodies i.e. civil groups with public interest objectives.

With the structural framework for a federal state like Nigeria, the systems model would pose four main questions among others namely:

- i. What are the objectives for Inter-Jurisdictional transaction?
- ii. What patterns of transactions are manifest between and among levels of government?
- iii. What is the nature of such transaction? And
- iv. How are these transactions managed or can be managed for efficient and effective realization of systems goals?

To include, the systems model to the application of revenue allocation formula in Nigeria since 1960-2000 has not really in any way been of been of beneficial importance to Nigeria, largely to the fact that prevailing revenue allocation formula have largely been formulated by the military and most painful of it is the way the fourth republic have highly politicize revenue allocation policies posing rising conflict every now and them, threatening the Nigeria political entity

It is expected that the different federating units should be well founded and more also encourage to develop its resources towards economic growth and not relying on the supra-system in order to maintain itself for each sub-system (federating units) would enhance national integration and survival of the systems when conflict and revenue allocation crises are well managed. More also, each constituent units is expected to contribute its growth towards national integration and development.

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CHAPTER THREE

INTERGOVERNMENTAL FISCAL RELATIONS IN NIGERIA

3.1 Historical Overview

The need for an ideal fiscal structure for Nigeria has undoubtedly not been an easy one even till date. Attempts have been made in this section to review the history of the development of Nigeria intergovernmental fiscal relations with a view to uncover what efforts have been made to mining or eliminate areas of conflicts among Nigerians.

According to Ola and Offiong (1999:112) serious consideration for the principles of allocation did not emerge until 1946 with the emergence of Richards constitution. Between 1946 and 1989, Nigeria had witnessed nine fiscal commissions, six military Decrees and only one Act of parliament on revenue sharing. Hereunder are some brief facts in respect of the different revenue allocation commissions that started in 1946.

SIR. SUDNEV PHILIPSON COMMISSION OF 1946

The commission was set up to determine the amount of revenue to be made available to the regions to facilitate the execution of their constitutional responsibilities. The commission considered two principals for the financial allocation of the regions.

- i. That of "Derivation" (that is a close approximation between the amount made available to a region and the amount which it had contributed to total Nigeria revenue.
- ii. "Even progress" (a sort of combination of the principles of need and national interest). In other words, it was an act of given relatively more to the background areas to enable them catch up with the rest.

HICKS - PHILIPSON COMMISSION OF 1951

Macpherson constitution set up the commission due to the anticipated change following the introduction of a quasi-Federal system of government. The commission

recommended the principle of Derivation, fiscal autonomy, Need and National interest. Fiscal autonomy gave powers to the regions to raise money in certain items. The commission allowed 100% import duties and motor fuel to be kept by the regions and 50% import duties an tobacco to be returned to the Region in proportion to their consumption rates.

THE 1953 CHICKS COMMISSION

The commission was set up in anticipation of the Olive Lyttleton constitution of 1954, which brought about federation and self-government states on the Regions. Consequently, there was the need for reviewing all the allocation formula.

The commission laid emphasis on the principles of derivation and fiscal autonomy. It recommended 100 percent of import duties on motor fuel and 50 percent of duties and excise duties on tobacco to be retained by the regions according to

consumption and 100 percent of mining rents and royalties according to extraction 100 percent of income tax according to residence. 50 percent of export duties according to origin while 50 percent of all other imports duties to be shared as follows: East 30 percent, West 40 percent and North 30 percent respectively. From the look of things at this time, it could be noticed that the bulk of the nation's revenue derived from export duties and excise tax went to the regions on the basis of derivation and consumption. This practice as believed, was quite advantageous to the regions.

SIR JEREMY RAISMAN COMMISSION OF 1958

The commission was the last fiscal review commission before Nigeria gained the principles of need and balanced development (even progress) while retaining the principle of derivation and fiscal autonomy. Furthermore, it created the distributive pool Account (DPA) among the regions on the basis of continuity of government services, minimum responsibility of government services, need and balanced development. Revenue head was divided into three levels, one to be into three levels are to be retained by the federal government, the second to be paid to the regions on the basis of derivation, while the third level to be with DPA for sharing as follows: NORTH 40%

WEST 31%

EAST 24%

Southern Cameroon 5%

In addition, it recommended the following revenue allocation formula: 100% instead to 50% of the import and excise duties on tobacco and export duties were to be shared between the Region 100 percent on motor fuel to the regions while 50% percent of mining rents and royalties according to extraction. Based on these facts, the regional governments perhaps were financially buyout than what accrued to them. It should be noted that the commission's report was embodied in the nation's constitution. **THE 1964 K.J. BTNNS**

COMMISSION

It is necessary to incentive that I 1963, Nigeria adopter a Republic Constitution. Economically petroleum was very important export commodity. Binns commission therefore reviewed the fiscal systems as recommended in the Raisman Report. It did not radically depart from the Raisman's position and therefore retained the principles of revenue allocation. The commission maintained 100 percent of import and excise duties o tobacco and motor fuel to be returned to the Regions according to consumption, 100 percent of export duties according to Origin, 50 percent of mining rents and royalties according to extraction furthermore it recommended the continuation of DPA into which 35 percent of other import duties and 35 percent of mining rents and royalties were paid in. the DPA were the shared as follows:

East 30% West 20% North 42% and Mid West 8%.

REVENUE ALLOCATION DURING THE FIRST MILITARY REGIME (1966-1979)

Decree 15,1967

Within one year of Binn's report, as observed the first Republic was aborted by a military putsch weeding to a federal military Government promulgated institution (financial provisions) Decree 15, 1967, thus dividing the former for regions into twelve (12)state. The DPA was relocated to reflect the twelve states structure. While retaining the basic philosophy of sharing on the basis of Binn's constitution report of 1964, the DPA was shared among six Northern states on the basis of equality while the six Southern states were shared on the basis of population.

DINA COMMISSION OF 1968

The commission recommended the continuation of the DPA but renamed it as states joint Account (SJA). It upheld the principled of derivation, fiscal autonomy, need, even development than recommended that 70 percent of royalties from onshore mining be directed into SJA. 15 Percent to the special grants. These recommendation and therefore not adopted for implementations

DECREE 13,1970

Following the decision of the federal Military Government not to accept the Dina's report of 1%8; two revenue sharing principles were recognized, that is the principles of population and Equality of state. It then emphasized, the sharing of the DPA on live basis of population 50 percent and equality of states 50%. The share of slates from export duties fell from 100% to 60%, while in the same vein, the state share of revenue from duties on fuel fell from 100 percent to 50%. Mining rents and royalties due to state reduced from 50% to 45%, while rents and royalties from mining of federal government rose from 15% to 20% from the look of things, it appeared that the federal government intended to reduce revenue going to the states while increasing the

ones going to the federal government accrue enough financial resources to cope with post-war reconstruction problems that faced the nation them.

DECREE NO. 9, 1971

This Decree gave 100 percent of offshore rents and royalties to the federal Government prior to the promulgation of the Decree; the Federal government under the leadership of Govern had radically altered revenue allocation formula through Decree No. 51 of 1969 petroleum Act that transferred ownership of solid minerals and oil to the federal government. Between 1967 and 1971, the federal Military Government adjustment the revenue sharing formula six times of its advantage and to the detriment of the states. For example in 1968, 100 percent of rent from off shore mining operations went to the state of origin, but in 1969, this was reversed with the federal government taking entire 100 percent, in the same vein in 1968, the federal government collected 15% from offshore mining, but in 1969, gave the tax paid by armed mining, but in 1969, gave the officers and pensioners overseas to the federal government. This radical effort of the federal government to collect so much revenue from oil resources were criticized by many Nigerians especially from the oil producing area. However, others like Allison Ayida, the then federal government

permanent secretary in the early 1970s, argued in support of such collection, which he defined as a means of strengthening the principles of national management of oil wealth or distribution of revenue on the basis of national wealth.

DECREE NO 6,1975

This Decree retained the principles of population and equality of states of revenue sharing among the states but made slight modifications as follows, on shore mining rents and royalties due to state was reduced from 45% to 20% on the basis of derivation. The Decree further stipulated that 80% of mining rent and royalties, 100% of duties on motors spirits, tobacco hides and skins, 50% of excise duties be channeled into DFA (SJA) while the retaining 50% be retained by the federal government.

ABOYEDE TECHNICAL COMMITTEE OF 1977

As part of the political programme to return the country to civil rule, the Obasanjo regime set up this commission to bring about a mutually acceptable formula for the smooth take off of the second republic. It recommended the following principles for sharing among states and local government Viz. Equality of Access to Development Opportunities 25 percent, Nation Minimum Standard for National Integration 22%, Abortive capacity 20 percent, independent Revenue Effort 18 percent and fiscal Efficiency 15 percent. It also recommended fixed proportion share out of federation Account among the federal 57 percent to oil producing areas and ecological problems. It is important to state that the report was rejected and taken to be too technical for practical implementation. It is important to mention that the

committee dropped the principle of derivation for the first time in over 30 years and retained the principle of National interest.

REVENUE ALLOCATION DURING THE PRESIDENTIAL SYSTEM OF

GOVERNMENT (1979-1983)

With the ushering in of a civilian regime under the presidential system of government in October 1, 1979, the president Shehu Shagari immediately margurated the presidential commission on Revenue Allocation referred to as Okigbo commission.

THE OKIGBO COMMISSION OF 1980

This commission recommended the following formula for sharing the Federation Account among the three tiers of government: Federal Government 53 percent, state government 30 percent, local government 10 percent, while 7 percent went to special funds.

On the horizontal sharing to the states, the commission's recommendations were based on the following principles. Population 40 percent Social development 15% and Internal Revenue Effort 0.5%.

PARLIAMENT ACT OF 1981

Shehu Shagari's regime through the joint finance committee of the National Assembly adjustment therefore that the existing formula of the Babangida administration was in use until he- finally died in June 1998. his successor, General

Abubakar therefore continue with the same formula until his exit from office in May, 1999.

3.2 ABACHA / ABDIISALAMI ABUB AKA'S REGIMES

During the time of Abacha, there was promise by his administration to put in place a generally acceptable revenue allocation formula, but this he couldn't achieve until he died. This presupposes to it by the constitution, which is as, follow: Federal government - 46.63%, States - 33%
Local government - 20.37%

In contrast, the presidency, which wants a bigger chunk of revenue than 46.63 percent allocated to it by the RM AFC has on to the revenue sharing formula, which the incumbent government inherited from the Military regime of Genera! Abdulsalami Abubakar. That formula allocates 45.5 percent to the federal government in addition to Sundry special funds, which jerk up its total allocation to 56 percent. The states and local government have 24 percent and 20 percent respectively.

3.3 REVENUE ALLOCATION IN THE FORTH REPUBLIC

After five years into the forth republic, the 36 state governments have been at daggers-drawn with the federal government over the making of a new acceptable revenue allocation formula that would be reflect the interest of all stakeholders. Section 162-168 of the 1999 - constitution provides for all the collection and disbursement of certain revenue allocation at the federal level section (163(2) provides that "the president upon the receipt of advice from NMAFC, shall table before the National Assembly proposals for revenue allocation from the federal account and in determine the formula, the National Assembly shall take into account the allocation principle especially those of population equality of state, internal revenue generation, land mass and terrain can population 'density'

Section 162(3) also provides that "any amount standing to the credit of the Federal Account shall be distributed among the different constitution units on such terms and in such manner as may be prescribed by National Assembly.

From the aforementioned constitution provisions, it is evident that they have not been complied with since May 29, 1999, when the 1999 constitution came to effect and when president Obasanjo was sworn in after a decade of uninterrupted Military rule.

Although the Revenue Mobilization Allocation and Fiscal Commission have made its proposals as assigned.

1980 Okigbo's recommendations as follows Federal government 55% (unchanged) State government 35%, Local government 10% out of the State" share of 35% 30.5% was allocated to the state on Okigbo's criteria. 2.0% derivation (for mineral production areas) 1.5% ecological problem (for mineral producing areas) 1.0% ecological problem generally. On horizontal sharing of the state, they were to share in accordance with Okigbo's principle of 1980 already discussed.

REVENUE AMENDMENT DECREE NO 36 1984 (BUHARI'S REGIME)

With the resurgence of the military government on December 31, 1983 after a little more than four year of democratic government, new fiscal structure through decreed resurfaced and introduced a new formula for vertical sharing as follows:

Federal capital territory 1%. Stabilization funds 0.% saving 2%, derivation 2%, derivation of oil mineral producing areas 1.5%,

General Ecology 0.5% and development of non-oil producing areas 0.5%.

Horizontal sharing was recommended to be shared as follows;

Equality of slate 40%, population 30%, social development 10% and internal revenue effort 2%.

Armed Forces Ruling Council (AFRC) Approval (1990).

The Federal government under the presidency of Barbangida approved a vertical sharing of the following from the federal account.

Federal government 50%, state 30%, local government 15%, and special funds 5% to be shared as follows. Fct 1% stabilization 0.5% derivation 1% development of oil minerals and producing areas 5% and genera! ecology 10%.

On the other hands, horizontal allocation was approved as follows; equality of state 40%, population 30%, special development factor 10%, education 4%, health 30% and water 3% landmass and territory 10%, and mineral revenue effort 10%.

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AFRC Approval of June 1992

In June 1992, the federal government (military) announced another revision of the revenue allocation formula as follows.

The share of the federal government was reduced from 50% to 48%. State share was reduced from 25% to 24% while that of the local government remained at 20% special funds was introduced from 50% to 7.5% and to be shared as follows:

FCT %, stabilization 0.5%, derivation 1%. Development of oil producing Areas 35% and General Ecology 2%. The state 24% to be shared as follows; on horizontal basis Equality of state 40%, population 30%, social development factors 10%, internal revenue effort 10% landmass and terrain 10%.

3.4 TAXING AND EXPENDITURE FUNCTIONS

A review of Nigeria's experience of fiscal federalism, particularly between 1960 and 1996 shows that the federal constitution which defined the taxing and expenditure functions of the three tiers of government had remained suspended most of the time. Consequently, intergovernmental relations that have occurred under the military administration do not conform to the conditional tiers of fiscal federalism.

The taxing and expenditure functions of the different tiers of government should relate to the responsibilities assigned to them. In order to ensure effective fiscal federalism and achieve political stability, there must be a review of the division of taxing and expenditure functions so that optional structure of functions would emerge

3.5 THE OBJECTIVES OF FISCAL RELATION IN FEDERATION

An ideal system of fiscal relations among units in a federation would:

- a) Ensure correspondence between sub-national expenditure responsibilities and their financial resources (including transfer from the central government) so that function assigned to sub-national governments can be effectively carried out.

- b) Increase the autonomy of sub-national governments by incorporating incentives for them to mobilize revenue of their own.
- c) Give expenditure direction to sub-national governments in appropriate areas in order to increase the efficiency of public spending and improve the accountability of sub-national officials to their constituent with nationally agreed income distribution goals.

TECHNICAL ISSUES IN ALLOCATION FORMULA DESIGN

The stated goals of an allocation programme usually reflect pious concerns such as "equalization fiscal disparities, even development pulling more where the need is, national integration" etc. the real goals of allocation often differ from the stated goals often times, the intentions of the designers are hidden on the states goals. The variables used in constructing the allocation formula reflect the hidden goals.

The stated goals of revenue allocation in Nigeria are extracted from the criteria, which the formula is constructed upon. They are; Equalizing fiscal disparities among states; National integration; Equality of states; population; Landmass development etc.

The outcome of allocation formula are evaluated in terms of extent to which these goals were achieved in other words, have the formula achieved government's stated intentions? Opinions are usually diversified. While some believed that to a large extent, some of the states goals have been achieved, others vehemently reject that believe. To them, the lopsided nature of the allocation which gives more revenue to the federal government and also gives out grants to states as it wishes, is an uncover for transferring more resources to the northern states. To them, where is the equality? How does one rationally and objectively defined the figures assigned to such criteria or goals as national; integration, need, fiscal disparity etc? There was no proper definition of state and local government need, if "need" is defined as the inverse of per capital money income, the relative poverty of a state is its population multiplied by "need" i.e. the inverse of per capital income. A situation where the data used in assessing his "need" is faulty, the allocation results leads to unfair distribution. Because of political nature of revenue sharing, the census population figures are doctored and very accurate,. This has resulted to made quack of reliable data for a reliable and fair revenue allocation formula to emerge in Nigeria.

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CHAPTER FOUR

PRESENTATION AND ANALYSIS OF RESEARCH QUESTIONS

Because of the descriptive nature of this study the researcher will therefore use secondary source of data to analyze the research questions. Viz;

4.1 Is There Equity or Imbalance in the Allocation of Resources Among the Federating Unit of Nigeria?

According to Olotayo C.A. (200:232), from Independence in 1960 till 1981 Nigeria's revenue allocation was neither efficient nor equitable. He further observed that a historical evaluation of the outcomes of the various commissions set up on revenue allocation have revealed results found lacking in integrative ethos of justice. He has observed that the federal government has been guilty of the rapacious accumulation of power and the nation's wealth to the detriment of the federating units which had been further balkanized from Nineteen (19) in 1976 to twenty one (21) in 1989, 30 in 1991 and 36 in 1996. The Octopoidal tendencies of the federal government have intensified with the promulgation of decrees strengthening its position in relation to the other tiers of government. The massive increase in revenue accruing to the federal government and the unilateral decreeing as to how it would be shared between it and the states eroded the financial autonomy of states and enabled the federal government to venture into areas exclusive to, or shared concurrently with the states.

Political observers believe that the federal government assume a lion's share of the national revenue and this runs against the grain of the current trend in federalism where the expectation is that the states the local governments would increasingly constitute the hub of economic development and centers for the provision of social amenities as well as infrastructure under the prevailing arrangement, state governments cannot be regarded as coordinate with, or independent of the central government in the management of their

affairs. This is because the consecration of the resources at the center makes other tiers of government subservient to the federal government. Besides many of the oilier tiers of government have little internally generated revenues. The stability and growth of revenue is a function of the ability of government to stimulate and sustain a high level of economic activity and optimal mix of revenue generating instruments. The outgoing analysis shows that although revenue accruing to the federal government over tune has increased in absolute terms, their revenue profile has depended largely on statutory allocations while the performance of internally generated revenue has remained unsatisfactory,

A cursory look at chapter two and three of this study unveils the realities of the imbalance in revenue allocation to the lower tier of government and more also, revealed that equity have been relegated to the margins of politics. The thrust of it is that revenue allocation has not gained wide acceptability thus posing agitations for a review of the existing formula by the different levels and units of government except

for the federal government who has assumed the bulk of the revenue and retaining the status quo ante.

Fiscal decentralization has been recognized in the literature as a way of promoting growth through its effects on reducing the overall size of the public sector and promoting revenue allocation efficiency and should stand as a guiding principle in revenue disbursement.

Fiscal imbalance as postulated by G.O. Olowononi (1999), can be reduced by adjusting the tax jurisdiction among the three levels of government. He further stipulates that any measure, which can be taken to reduce the high degree of dependence by the state and local governments in federal transfers, will also help to reduce fiscal imbalance and more also strengthen fiscal Federalism in Nigeria.

4.2 Will Even Revenue Allocation Among The Six Geo-Political Zones Bring Political And Economic Development In Nigeria?

It is a statement of fact that some regions in the country have greater potentials for development due to a preponderance of resource endowment while others that do not have these advantageous factors solely depend on the "National Cake" for survival. This as observed generates dualism in spatial development within a country and within regions in the country. The imbalance in resource endowment and disparity in transformation efficiency necessarily result in spatial imbalance in economic development, which in turn, creates competition and tension among regions. Ayoade

(1988), argued that "the use of federalism to suppress such social pressures only results in perpetual balancing of tension in the attempt to create Unity without Union."

According to Mbanifor (1993:62), "it is virtually impossible in a federalism to satisfactorily adjust the financial resources of members to the functions entrusted to

them." In Nigeria, this imbalance is further aggravated by concentration of major sources of revenue at the federal level.

The focus was is not totally novel. It is like a return journey to the origin, that is, the regional system of governance. Granted that the balkanization of Nigeria into 36 states has changed the geo-political structure from regions to states, the emphasis have therefore is zonal agglomeration as a root to contend with the controversies inherent in arriving at an acceptable formula, 11 is interesting to note that some economic infrastructure established under the regional structure still exist today. For example, the Odua's Group of Companies is a relic of Western region government while the Arewa Group represents the investments of the erstwhile Northern Region Government. Before the creation of states, the keen competition among the regions promoted economic growth. The same competition cannot be witnessed under a more diffused state structure that we have now. Thus, we find that the father a stale is from the metropolitan centers such as Lagos, Ibadan, Kaduna, Kano, Aba and Enugu, the less the level of the economic infrastructure and activities.

Inorder to sustain economic growth, capital must be available and affordable. It was argued that only financial independence of the states would resolve the problem

of fiscal federalism in Nigeria. Therefore, the division of Nigeria into six zones by a politically neutral institution, will reduce the high dependence of states on the central and thereby enhance capital development both in roads, rails and even markets for goods will, in the long run, become integrated in each zone, so also will there be healthy competition among neighbouring zones and eventually throughout the country. Finally, the resultant economic growth and development through industrialization will make the state self sufficient in funds, as is the case with Lagos State.

Summarily, adequate or even funding or allocation of resources into zones (i.e. six geo-political zones) will enable the states to have enough fund to embark on capital project and each of this zones will in turn be expected to contribute its quota in a measurable way that would enhance economic growth thereby promoting national integration and minimize political struggles over the review of revenue allocation formula time over time.

4.3 What Factors Come Into Play in Arriving at a Formula?

From the adoption of a federal system of government in 1954, no basic consensus was ever reached on how power was to be shared. The political authority simply decided on how revenue allocation and the distribution of functions should be done.

As observed by Musgrave and Musgrave (1980), the concrete problems of fiscal federalism are embedded in their historical settings.

Olutayo (2000:232) observed that from independence in 1960, till 1981, the country's revenue allocation system was neither efficient nor equitable. Indeed, it manifest a wide spectrum of vulnerability, ethnicity, language, regions and religion interactively for Nigeria's matrix of cultural pluralism.

Arriving at a formula acceptable to the different levels and units of government in Nigeria has been politicized into faction and fractional struggles, which in turn reflect regional, and ethnicity identifies within stakeholders especially at the horizontal revenue

allocation. This can be drawn from the problems inherent as a result of the kind of amalgamation, which brought Nigeria political entity as one. As gathered, political scientists have seen it as an amalgamation of 250 different ethnic groups with different language into a political system and also creating or retaining the different identities and culture. This has created a problem for the development of national consciousness in the country. Furthermore, these problems has been a result of the system by which the colonialist ruled the colony.

Stakeholders, in arriving at a lasting formula, bring ethnicity to bear consciously or unconsciously. This factor consequently make the formula arrived at widely unacceptable by the people. Going by the system's model, the different levels and units of government needs to see themselves as contributors to the maintenance of the Nigerian Political System and not as Ibo, Hausa or Yoruba people. Therefore, there is the need to restructure the' country as a true federalism where revenue shall be shared inconsonance with the principle of genuine federalism among the states.

It is therefore instructive to note that any individual in power determines what share should be allocated to what ethnic group. In other words, those in power have often determined who gets what when and how. This power position is guided judiciously such that the individual in power determines what share should be allocated to what region or ethnic group. The problem here is that it leads to ethnic struggle for power especially when the revenue formula turns out not to favour such ethnic group

Factors that should be taken into consideration in revenue allocation are the balance between responsibilities and availability of resources. That is in federation resources to enable it discharge its responsibilities in an effective manner. There are different ways of ensuring this balance. The functions may be distributed in such a way that the resource base and functions of a given level of government are approximate. Although, this is difficult to achieve. Another way is to transfer some source of revenue to the level of government that has been assigned added responsibilities. This method is fraught with problems bordering on dilatoriness because it may necessitate constitutional amendment and lastly is transfer of funds from one level to another level.

The principle of population, equality, landmass, even development, need and derivation are another factors. While population is said to be democratic, it result in the politicization of census. The units may attempt to inflate their population figures in order to attract substantial statutory allocation from the federally collected revenue. In order to achieve the same objective the obligation or responsibilities of the units may be amplified if the principle of need is adopted- The criterion of equality is undemocratic to the extent that it allows for treatment of unequal units as equals. Much as the principle of even development is a disincentive to internal revenue generation efforts by the states. However, it is capable of facilitating the process of national integration. One should not also loose sight of the fact that even development is antithetical to one of the basic

principles of federalism, which provides for the development of each unit at its own pace. But one is at a loss as the rationale for the adoption of land mass criterion. Consequently, it should be discarded, it is an exercise in futility to suggest that there is "one best way" in arriving at an acceptable formula of revenue allocation. In Nigeria, what should be considered among other things should be a combination of criteria with appropriate weighing of each order to have a reasonable balance between autonomy of states national integration.

4.4 What Has Been The Responses Or Reaction Of The Different Federating Units In The Search For An Acceptable Revenue Allocation Formula Overtime?

The contradictions between the oil producing states and the non-oil producing states has always remained the struggle for an acceptable formula for revenue sharing. Since most of the oil is found in the coastal areas of mid-western and South-eastern Nigeria and the adjoining offshore areas, the process of state creation and the growing profile of oil have made the issue of the modality of distribution a sore point in interstate relations. Thus, while the oil producing states insist on derivation, the non-oil

producing states insist on the principles of the equality of states and the size of population.

The oil producing state and community have every now and then agitated for a restrictive of the federal system whereby true fiscal federalism would be admitted on the sharing of revenue. They are of the opinion that the various ethnic nationalities that make up Nigeria came up with the independence and republican constitutions (1960 and 1963) with the mind to practice a true federal system made up of strong states or regions and a central or federal state with limited power, operating directly on persons and properly within its territorial area, with a will of its own and its own apparatus for the conduct of affairs and with an authority in some matters exclusively of the others that the three regions; East, West and North, and later Mid-West operates (Sagay, 2005:8).

Undeterred, the oil-producing states have remained as resolute as ever on the grounds of equity, justice, fair-play and the need to protect their environment from the deleterious impact of oil pollution. They also complain that they are marginalized by the other (numerically dominant) groups of the federation who (even though they contribute little or nothing to federal revenue) continue to feed fat on oil rents and plum federal jobs. Through media campaigns, political for a, court cases and well-articulated views or pressure groups within civil society, that oil producing states have pushed their case. For example, during the Babangida regime's transition programme, they formed themselves into the Association of Mineral Oil states (AMOS), to fight for derivation-based redress in Nigeria's fiscal federalism. Yet, concessions in the form of OMPADEC and the small increase in the statutory allocation to mineral producing areas have neither appeased the oil minorities nor allayed the fears of the non-oil states, thus worsening the tension in interstate relations.

The non-oil producing states reacting to their counterparts, says their agitation is a recipe for disintegration. Their position is that true federalism as enumerated by the oil-

producing states has been coined to fit their selfish purpose. According to them, resources belongs to every Nigerian irrespective of the area they come from,

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

Basically, this study aimed at examining the Historical development of Revenue Allocation and its principles in Nigeria from 1960 through 2003 it also analyzed issue and contradictions, which are inherent in the Nigeria fiscal federalism.

In effectuating (his task, the researcher employed the unobtrusive method which entailed the use of past works on the subject duly analyzed from data solicited from text-books, journals, official documents, magazines, newspapers, seminar papers etcetera. These materials were sourced from the federal ministry of finance Edo state, ministry of information, Benin City, the university of Benin library, Benin City, the Edo state library, etc.

This study has helped to observed that vertical and horizontal revenue sharing or allocation issues remain the centerpiece of intergovernmental fiscal relations in Nigeria and infact a veritable source of the national question. The anomaly in the principle of derivation in vertical revenue sharing were also exhausted.

In this study we also discussed the pre-oil wealth in Nigeria and how it was allocated through the principle of derivation to the lower levels of government-state and local governments.

5.2 CONCLUSION

Since colonial times and especially since independence, the search for equitable revenue allocation formula has remained contentious in Nigeria's fiscal federalism. Several fiscal commissions were set by various governments arrive at a more acceptable revenue sharing formula, but this efforts over the years, have yielded no positive and acceptable results to many Nigerian's most especially the areas where these resources come from. This has over the years, continued to generate agitations by these states for a special consideration from the federal government.

The total dependence of the country's economy on the oil sector has continued to generate concerns among political pundits in the country. There contention is that the country's economy should he diversified in order to have a more conducive environment for the practice of democracy in the country. As the study have revealed, it is a contradiction in terms find an aberration of international norms and principles of fiscal federalism.

If the various agitations is to be put to rest there is therefore the need for the put implementation of the principle of a true federalism in the country where states where the resources come from pay tax to the center government.

5.3 RECOMMENDATIONS

The researcher is disposed to proffer the following recommendations based on the findings and conclusion of this study:

- 1) Development cannot come from the top to down; it has to be from Holton-up.

therefore, the capacity of local government must be improved. Also, there is the need for monitoring of all levels of government to ensure accountability. I however, the federal government should only formulate policies while the actual implementation of programmes and project should be by states and local government.

- 2) The deliberate and concerted efforts should be made to institutionalize equitable revenue allocation as a potent and veritable tool in realizing National integration.
- 3) There should be a serious play down on fiscal concentration at the federal level which had created great opportunities for fiscal irresponsibility and corruption in the scheme of things.
- 4) All states of federation have one natural resources or the other which are not being exploited because of over-dependence on oil and on the federation account, therefore these states should be encourage to exploit the resources that God has given them in order to reduce their dependency.
- 5) Government should inhibit the spirit of true federalism, that is, each federating units should be allowed to have meaningful control over their resources and to use them for self-development in accordance with each nationality's aspirations.

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