

FISCAL FEDERALISM AND THE POLITICS OF REVENUE ALLOCATION IN NIGERIA

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Abstract

The politics of determining the sharing of the federal revenue among the federating units in Nigeria has always been contentious. This study therefore investigated the practice of fiscal federalism and the politics of revenue allocation in Nigeria. It adopted the secondary method of data collection and relied on documentary analysis to arrive at some conclusions. The study was located and guided by the theory of federalism. It was obvious in the study that, revenue allocation formula is not a mere instrument for determining what segment of the polity gets what percentage of the so-called national cake, rather it is more of a tool used for ensuring fiscal efficiency, social justice and political stability, which guarantees growth and sustainable development within the context of well-defined national objectives. The study submitted that, in Nigeria, however, the federal government, over the years, has centralized resources and appropriated most powers at the detriment of the federating units. There has therefore, been unrelenting agitations for devolution of powers and resources to the federating units. These activities, including the agitation for resource control, review of the sharing formula and the politics of derivation have often times been confrontational, violent and have polarized the country along the age long ethno-regional lines. Among other recommendations, the study established the need to devolve powers and resources through constitutional frameworks, diversify the economy, ensure justice, equity and accountability in the quest for cohesion, stability and continued existence of Nigeria.

Keywords: Federalism, Fiscal Federalism, Revenue Allocation, Resource Control and Devolution of Powers

Introduction

There are variegated forms of federal arrangements in the world, based on the conjunctions of their history, politics and development paradigms. In nearly all the federal systems, their constitutions share powers between the central government and the constituents units. This is for each level of government to be within a sphere co-ordinate and independent. It is also to ensure that commensurate resources are allocated to each level of government to justify their existence and enhance their development efforts. The nature and conditions of financial relations in federal systems particularly one that is transfixated on a multi-ethnic society like Nigeria is crucial to her continued existence (Ojo, 2009, p.175). This is because fiscal matters transcend the purview of economics alone. As Anderson (2008, p. 30) submits, “arrangements around the raising, sharing and spending of money are critically important, both politically and economically, for the functioning of federal systems”. In other words, federal systems have the fundamental task of agreeing or making proper framework around who determines and collects taxes and other

revenues and who spends them, how and on what. It must be added that revenue collection and expenditure incentives affect the efficiency and performance of government and the economy, whether policies are expansionary or otherwise. In Nigeria, this has in most cases assumed political, religious and social dimensions. Thus, the basis of federal statutory revenue allocation has been continuous and one of the most contentious and destabilizing factors in the Nigerian polity (Omodero, 2019).

It is imperative to emphasize that whatever may be the origin of a federation, whether aggregation or devolution, its establishment at once raises three salient problems: “how to allocate functions rationally; how to allocate taxing powers; and how to share revenue between the governments of that federation” (Ojo, 2010 p. 15). Meanwhile, it is imperative to note that Nigeria’s revenue sharing debates have revolved basically around three issues namely: (i) the relative proportions of federally collected revenues in the federation account that should be assigned to the centre, the states, the localities and the so-called ‘Special Funds’ (vertical revenue sharing), (ii) the appropriate formulae for the distribution of centrally devolved revenues among the states and among the localities i.e. local governments (horizontal revenue sharing) and (iii) the percentage of federally collected mineral revenue that should be returned to the oil-bearing States and communities on the account of the principle of derivation and compensation for the ecological risks of oil production (Ojo, 2010). It is equally important to note that since the oil boom in the early 1970s, the revenue allocation formula has been bedeviled by time inconsistencies – a tendency of one of the parties in a consensual agreement to change the terms after the negotiations have been completed. Why then has the practice of fiscal federalism and revenue allocation assumed much premium in Nigeria’s federal practice?

Objectives of the Study

The general objective of this work was to investigate the nature of fiscal federalism and politics of revenue allocation in Nigeria. The specific objectives were:

- i. To investigate the background issues in Nigerian federalism,
- ii. To examine the evolution of revenue generation and allocation in Nigeria,
- iii. To explain the politics and debates of fiscal federalism in Nigeria,
- iv. To explain the implications of Nigeria’s politics of revenue allocation on national stability in Nigeria and
- v. To advance policy options for an equitable fiscal federalism and in taming the frayed nerves that are capable of disintegrating the nation.

Methodology

Taking into cognizance that the phenomenon under investigation has already taken place, this study made the use of *ex-post-facto* design imperative. The ex-post-facto design is that type of research design in which the investigation start after the fact has occurred without interference by the researcher. This study adopted and applied the qualitative analysis of documentary evidence which is the use of documentary or secondary method which entails the sourcing of data from materials as textbooks, journals, newspaper, magazines, internet sources, government publications among others related to the study area to enrich and help this work achieve its validity.

Conceptual Framework

i. Federalism

The concept, federalism comes from the Latin word, ‘foedus’, which means compact, covenant or agreement. There are however, unlimited attempts made at conceptualising the word ‘federalism’. To start with, Wheare (1963), who is regarded as the doyen of federalism, conceptualises it as “the method of dividing governmental powers so that central and regional governments are each within a sphere, coordinate and independent”. Furthermore, Riker describes federalism as a technique of governance. He identifies federalism as the main alternative to empire. The characteristics of Federalism have been identified to include: (i) two levels of government over the same territory, (ii) guarantee of autonomy for each level of government, among others (Riker, 1964). In consonance with the foregoing, Elaigwu (2005, p.6), sees federalism as:

a compromise solution in a multinational State between two types of self-determination – the determination provided by a national government which guarantees security for all in the nation – State on one hand, and the self-determination of component groups to retain their individual identities on the other.

He also submits that federalism emanates from the desire of people to form a federal union without necessarily losing their identity. Thus, federalism is an attempt to reflect the diverse political, social, cultural and economic interests within the broader framework of unity. It therefore attempts to satisfy the need for cooperation in some things coupled with right to separate action in others. In a plural society like Nigeria therefore, federalism is theoretically, about equality, justice and fair play among both the constituent units and communal groups found in the polity. It is also concerned with the spatial mobilization and utilization of societal resources in a manner that facilitates balanced growth and development. We can, in sum define federalism as the distribution of political and economic decision-making powers among constituent units and levels of government in a federal system. It is thus, a form of government which is deliberately designed to cope with the twin problem of maintaining unity while also preserving diversity.

ii. Fiscal Federalism

By the federal principle, each level of government should have adequate resources to perform its functions without appealing to the other level of government for financial assistance. In other words, financial resources or revenue base should match assigned responsibilities. As adequately submitted by Wheare (1963):

borrow for the financing of its own services by itself.

This implies that fiscal federalism is the arrangement through which responsibilities and functions are shared among the constituent levels of government in a federation. Corroborating this view, Anyanwu (1997) submits that fiscal federalism refers to an arrangement or institutional framework which exists in a society for making budgetary decisions of raising revenue, incurring expenditure and engaging in debt or borrowing operation. In a similar vein, Ovenseri-Ogbomo (2007, p. 56), submits that “fiscal federalism involves the sharing of financial and economic

responsibilities between or among the legally constituted centrally administered government and federating units". In this work, fiscal federalism is basically, an institutional framework for power sharing regarding the raising and sharing of revenue in a federal system to enable the central government and the federating units to meet up with their statutory duties and responsibilities. Fiscal federalism in Nigeria has become a contentious issue, especially in the Fourth Republic, as the various federating units agitate for more resources or share in the control of revenue base and a change in the allocation formula. This has grave implications for the stability, security and development of Nigeria.

iii. Revenue Allocation

In all federal systems, responsibilities are constitutionally assigned to at least two levels of government, namely, federal and state governments or any nomenclature they may carry. Nigeria is however a three ordered federal state, having the federal, state and local governments. More often, the responsibilities statutorily assigned to each of the federating units are not matched by the allocation of revenue sources, which invariably results in a gap that exists between expenditure obligation and availability of resources to carry them out, thus leading to discordance between fiscal capacity of the various levels of government and their expenditure responsibilities (Jega, 2007). Thus, the issue of revenue sharing or allocation arose as a mechanism to establish a balance between what levels of government are expected to do and their ability to do it. This is usually done by transferring resources from one level of government to another. In Nigeria, as in many federations, resources are transferred from the federal to the lower levels of government using some formula or criteria as may be approved by the constitution or Revenue Commission (Omodero, 2019).

Revenue allocation can therefore be defined as the transfer of financial resources from one tier of government to another. In this study, it can be seen as the distribution of federally collected revenue among the various governments of the federation. The sharing formula has been contentious and pre-dates independence in Nigeria.

Review of Theoretical Issues

This study adopted the theory of fiscal federalism to framework of analysis. As argued earlier, fiscal federalism concerns the division of powers, functions and finances or revenue bases among the different tiers of government. Given this division, economics emphasise the need to focus on the necessity for improving the performance of the public sector and the provision of their services by ensuring a proper alignment of responsibilities and fiscal instruments. According to Ozo-Eson (2012), while economic analysis seeks to guide this division by focusing on efficiency and welfare maximisation in determining optimal jurisdictional authority, political considerations as well as historical events and exigencies, have in practice, played major roles in shaping the inter-governmental fiscal relations in most federations.

The foundations of the theory of fiscal federalism were initially laid by Kenneth Arrow, Richard Musgrave and Paul Samuelson. To Ewetan (2012), Samuelson's two important papers (1954, 1955) on the Theory of Public Goods; Arrow's discourse (1970) on The Roles of the Public and Private Sectors and Musgrave's book (1959) on Public Finance provided the framework for what became accepted as the proper role of the state in the economy. Within this

framework, three roles were identified for the government sector. These were the roles of government in correcting for various forms of market failure, ensuring an equitable distribution of income and seeking to maintain stability in the macro-economy at full employment and stable prices.

Thus, welfare economics and political theory are the two strands of theory which significantly guide revenue allocation. The main theme of the economic argument is the bridging of inequality gap. This gap exists because of unequal endowment of natural resources which result in an imbalance in the physical development of the communities. According to Oyediran and Olagunji in Ewetan (2012), higher spatial poverty in natural resource endowment increases the agitation for equality as a revenue allocation criterion. Consequently, fiscal policy is the deliberate use of revenue generating and spending machinery of government to steer the economy in the desired direction. The major economic roles of government are resource allocation, income distribution and macroeconomic stabilization. Through fiscal activities, taxes are levied on economic activities in the regions with concentrated economic resources and some of the proceeds transferred to the scant resources region, in a way that will guarantee equitable distribution across sectors and geographical regions within a fiscal system. The centrally collected revenue across sectors is shared such that horizontal fiscal disparities among localities and vertical imbalances among tiers of government are minimized (Akpan & Umodong, 2003).

Federalism therefore, provides a framework for solving the political problem of administration and the economic problem of resource distribution. In practice, sometimes, the optimization of administrative costs is an economic issue, where also the distribution of resources involves some political issues in determining the constitutional criteria for such allocation in such a way that will ensure equality and/or equity. An efficient distribution is that in which no section of the society is worse off, while making the other better off. However, the problem of efficiency is beset with major measurement difficulties when the issue of redistribution is evaluated. This is because redistribution entails balancing of value with gains accruing from all parts of the society from fiscal operations. Furthermore, Akpan & Umodong (2003), observe that redistribution that can ensure equality will not guarantee efficiency, thus the question of balancing the inefficiency and equality in an acceptable way encompasses the use of economic and political means to induce compromise and agreement. This may involve the use of consultation approach to power balancing and the protection of rights. The use of the government revenue allocation principle to engender development in resource poor region is based on the theory of balanced growth, which emphasizes the need to provide the basic minimum developmental conditions (infrastructures) necessary for each region to rise above the low-level equilibrium trap and accumulate the preconditions for the take-off. Planned development therefore calls for inter-regional transfer of resources through some fiscal processes.

It is noteworthy therefore that the use of derivation as a criterion for revenue allocation is associated with changes in the social state of welfare that results from production activities and the compensation of losers by gainers in production activities. As production takes place in any society, value is created for some members of the society while some members suffer losses due to externalities. A production activity is said to enhance the society's level of welfare. Thus, if it is possible for those who gain value (and attain higher welfare level) to compensate those who made

losses (and incur a reduction in welfare level) such that the latter is at least left at the level of welfare as before the production with the former group still better off after the redistribution. This principle of redistribution of gains from production in a way that guarantees the removal of welfare losses caused by externalities of production is referred to as compensation principles.

The compensation principle, as Ikeji (2012) submits, is the basis on which derivation as a criterion for sharing fiscal revenue is anchored. The production of oil, for instance, entails losses to the oil communities in three major ways, namely; natural resources losses – these include the extracted depletable crude petroleum and losses on the vegetative part of the land used in the mining; externalities of oil production – these include environmental pollution, high costs of living, unemployment and loss of means of livelihood due to environmental degradation, etc.; social costs of production – for example, breakdown in social value system, high crime, etc. These losses by the oil producing communities due to oil production activities can be compensated for using fiscal means of revenue allocation based on losses suffered by those communities.

Background Issues in Nigerian Federalism

Federalism generally is adopted by countries to bring together formally separate units into a new country, or to rearrange a previously unitary country or as a product of both processes together. Each federation has its own story regarding the origins and its territorial and political evolution. These stories involve wars and revolutions, dynastic marriages, colonial empires, international treaties and peaceful democratic processes (Anderson, 2008). As a plural State with cleavages ranging from ethnic, religious, linguistic and cultural heterogeneity, among others, Nigeria adopted federalism partly as a mechanism for managing conflict among her heterogeneous population. The emerging fears and suspicions among groups in the competitive setting during the terminal colonial period, had led to the emergence of aggressive ethno- regional politics. By 1954, the unitary colonial State saw itself being formally federalized (Elaigwu, 2005).

It is important to emphasise that the unity or otherwise of the country is in part a reflection of the form and character of the common government — the superstructure — and the changes it has undergone since 1900 (Coleman, 1958). Although the amalgamation of 1914 created a political fusion of the North and the South, it lacked the objective of building a unified State for the purposes of establishing an indigenous government. Thus, between 1914 and 1946, very little effort was made to integrate Northern and Southern Provinces. They were administered separately, and the colonial officials in these administrations zealously fought to keep each group of provinces separate. Similarly, until the introduction of the Richards Constitution in 1946, which provided for a Central Legislative Council, there was no opportunity where the people of the territory could meet and deliberate on issues affecting the country as a whole. As argued by some scholars, this separate political development of the North and the South must have been suitable for colonial administration but not useful in the development of a State and a Nation, especially given the context of Nigeria's multi-ethnicity (Elaigwu, 2005).

The opposition and rejection of the Richards Constitution gave way to the McPherson Constitution in 1951. This Constitution gave more autonomy to the regions. Again, while bicameral legislatures were provided for in the Western and Northern regions, the Eastern region was to have a unicameral legislature. It can be argued that up to this time, Nigeria was operating a unitary form of government or at best, what Elaigwu (2005, p.25) calls "a quasi-federal form of

government". Once power was devolved to the regions and the prospects for self-government became only a matter of time, emergent nationalist identities crystallized around the regions. Consequently, all the Political Parties that emerged to compete for and wrest power from the colonial rulers had clearly ethno-regional bases. As such the National Council of Nigerian Citizens (NCNC), the Northern People Congress (NPC) and Action Group (AG) had their bases in the East, North and West and were dominated and controlled by the major ethnic groups of those regions like Igbo, Hausa/Fulani and Yoruba respectively. Giving this background, ethnicity and regionalism became the Nigerian political way of life and manipulation of same sentiments to have access to power. Suffice to add that "the very prospect of decolonization in Nigeria led to tensions among groups who competed for power in order to (i) protect their group interests against possible invasion by other groups in the competitive process and (ii) take over the reins of power from the colonial government and control the dispensation of allottable resources and patronage (Elaigwu, 2005).

The sense of distrust of Nigerian leaders for one another and the existence of centrifugal forces in the country were amply demonstrated in the Constitutional Conferences of the 1950s. The mutual fear of one another by the ethno-regional leaders in Nigeria diluted the demands of some nationalists for a more unitary form of government or a federal system with a very strong centre. The regions therefore opted for greater autonomy with the promise of self-government and the subsequent removal of colonial umpireship. A federal system was therefore adopted as a result of a compromise between centrifugal and centripetal forces. It rested on a particular attitude on the part of the federating units who desire "union but not unity". The Nigerian leaders opted for a federal system of government and the 1954 Constitution only legalized their feelings. The Constitution gave more autonomy in decision-making to the regions. The Regional Assemblies sprang up and regional bureaucracies were established (Hembe, 2000). However, "the aggressive ethno-regionalism between 1951 and 1959 gave a false impression of homogeneous regions. The regions were by no means homogeneous units as each had a number of vocal and politically active minority groups. The fears of minority groups of domination by majority ethnic groups led to increasing demands for separate political units within Nigeria as independence drew new (Elaigwu, p.2005).

There have thus been ceaseless agitations for the creation of more States in the Nigerian federation. The country, which began with three regions, has over the years, through State creation exercise, brought the number of constituents units in the Nigerian Federation to thirty-six States, a Federal Capital Territory, and 774 Local Government Areas. Yet, there are more agitations for new States in Nigeria. As Ekekwe (1986) submits, underlying these demands are the constitutive interests of members of the privileged classes, for whom State creation has become an avenue for multiplying rent seeking and other prebendalist accumulation opportunities, as well as an avenue for access to power.

Evolution of Revenue Generation and Allocation in Nigeria

The issue of fiscal federalism has engaged various commissions and committees since the colonial days (Sagagi, 2015). Yet, even today, this issue continues to be in the front burner of national discourse. The calls or demands for resource control and the review of the sharing formula clearly demonstrate that this is still an unsettled matter. As Kalu (2011) posits, between 1948 and

2012, there have been nine Commissions, six Military Decrees, one Act of the Legislature and two Supreme Court judgements that have attempted to defining and modifying fiscal interrelationships among the component parts of the federation. In the present democratic dispensation, there has been a hike in the clamour to redefine or interpret the framework for revenue sharing both between the States and the Federal Centre (vertical sharing) and among the States themselves (horizontal sharing). He further submits that the development of Nigerian fiscal federalism occurred in phases. In his view, the first phase of the development of fiscal federalism in Nigeria occurred during the 1948-1952 period. This phase was marked by a centralised financial arrangement in which the excess in the budget of the central government was allocated to regional governments on the principle of derivation.

The expenditure needs of the central government thus took precedence. In the second phase (1952-54) autonomous revenue and tax jurisdiction for the regional governments was introduced in addition to the operation of the principle of derivation for the sharing of federally collected revenue. The basic elements of the second phase were carried over to the third phase (1954-59). A major distinguishing factor of this phase was the emphasis on the derivation principle in the sharing of federally collected revenue. This pleased the Northern and Western Regions given the boom in their export commodities: cotton and cocoa respectively. The Eastern Region, whose main export crop, palm oil, was facing difficult times in the global market, was unhappy with its application. This was the period of State-centred fiscal federalism. It has remained the reference point by present day proponents of either higher emphasis on derivation or resource control, especially minorities of the oil-producing areas.

The fourth phase of the development of Nigeria's fiscal federalism was the product of post-independence politics (1960-66), which remains the main referenced pillar of fiscal federalism in Nigeria to date. This phase sought to reduce the earlier emphasis on regional financial independence based on the principle of derivation. It was argued that the financial stability of the federal government was necessary for the stability of the regions. Following from this, the 1960/63 constitutions provided for 50 per cent derivation in respect of revenues from all minerals. It was in this phase that the Distributable Pool Account (the forerunner of today's Federation Account) was instituted. Specified tax proceeds collected by the federal government was paid into this account and then distributed to the regions based on the following criteria: (1) continuity in government services; (2) minimum responsibilities of each government; (3) need, based on population size of the region; and (4) the balanced development of the federation (Kalu, 2011).

The fifth phase, beginning from 1966 has been characterized by increasing centralisation as the States have become increasingly more dependent on the federal centre. This period has coincided largely with the military's stranglehold on Nigerian politics. The centrist command structure of the military was brought to bear on inter-government fiscal relationships. A number of historical occurrences and events were exploited to promote the centrist preference of military rulers. In other words, the rally around the need for national unity as a result of the Civil War was exploited to strengthen the Centre at the expense of the States. The creation of States from the regions and continuous fragmentation of the States became instruments for promoting a

concentration of fiscal authority at the centre. In addition to these, Kalu submits that various decrees were promulgated expropriating tax authorities and jurisdictions from the States.

The concept of a predatory centre is apt in describing this period. The centrist philosophy has found its way into the 1999 Constitution handed down by the military. Thus, even under the present democratic experience, fiscal centralisation has been too attractive for democratically elected governments at the centre to resist. This has given vent to calls and agitations by lower tiers of government for a more decentralised fiscal arrangement. However, the fiscal commissions appointed by the central government and the National Assembly have continued to formulate revenue allocation formulae which maintain fiscal centralism (Ezo-Eson, 2005).

The politics and controversy on the appropriate formula for sharing resources in Nigeria has been recurrent and contentious. Over the years, various Commissions have been set up to work out acceptable and equitable revenue allocation formula for the country. The Commissions include:

- The Phillipson Commission of 1946
- The Chicks -Phillipson Commission of 1951
- The Chicks Commission of 1953
- The Raisman Commission of 1958
- The Binns Commission of 1964
- The Dina Interim Revenue Allocation Committee of 1968
- The Aboyade Technical Committee of 1977
- The Okigbo Presidential Commission of 1979
- The T.Y Danjuma Fiscal Commission of 1988
- Revenue Mobilization, Allocation and Fiscal Commission (1999)

Given the long historical background of commissions and committees established to handle fiscal issues and revenue allocation challenges that arose from time to time, the commissions/committees were usually scrapped or dissolved on the completion of their respective assignments. As a result of the creation of additional States and Local Governments which increased the complexities of inter-governmental fiscal relations, there was need to establish a body to handle Revenue Allocation and Fiscal matters on a continuous basis unlike previous ad hoc commissions or committees. The Revenue Mobilization Allocation and Fiscal Commission was established by Decree No. 49 of 1989 as National Revenue Mobilization Allocation and Fiscal Commission (NRMAFC). Decree No. 49 of 1989 was later amended by Decree No. 98 of 1993 (now RMAFC Act Cap. R7 LFN 2004). However, the Commission was re-named Revenue Mobilization Allocation and Fiscal Commission (RMAFC) in the 1999 Constitution of the Federal Republic of Nigeria (as amended), under section 153 (1) as one of the fourteen (14) Federal Executive bodies established to provide mechanisms for checks and balances in Nigeria democratic practices (Babalola, 2015).

There are basically two sets of Revenue Allocation Formula: Vertical and Horizontal Formula. The Vertical Formula is used to allocate funds to the federal, state and local governments (as the recognized three tiers of government). The Horizontal Formula, on the other hand, is used to allocate funds among states and local governments respectively, using some revenue sharing formula. The updated revenue sharing formula is as follows:

A: Vertical Formula

1. Federal	54.68%
2. States	24.72%
3. Local government	20.60%
TOTAL	100%

Source: Ikeji (2011, pp. 121-136).

B: Horizontal Formula

i. Equality	40%
ii. Population	30%
iii. Land Mass and Terrain	10% (@ 5% each)
iv. Social Development Factors	10%
i. Education	4%
ii. Health	3%
iii. Water	3%
v. Internal Revenue Generation	10%
TOTAL	100%

Source: Ikeji (2011, pp. 121-136).

A review of fiscal federalism in the postcolonial Nigeria reveals two distinct phases: the phase before military rule - the First Republic - and the phase after the military take-over in 1966. During the First Republic (1960- 1966), the revenue of the country was distributed based on derivation principle. Accordingly, 50% of the sum of rents and royalties received by the federation from mining and minerals, including mineral oil, within each region was paid to the region while 30% was credited to the Distributable Pool Account (DPA) after any refunds or repayments relating to those receipts had been deducted or allowed for. Only 20% went to the Federal Government. The DPA was further shared with 40/95, 24/95 and 31/95 going to the North, West and East respectively. An important feature of the derivation policy during this period is that the continental shelf of a region was also deemed to be part of the regions where applicable.

The military, however, took over power in 1966 with a unitary structure, and was followed by a 30-month Civil War. Suffice to add that most of the oil producing communities was in the Republic of Biafra that was declared by the secessionists. Thus, in 1969, when the Federal Military Government had recaptured the oil producing communities, it promulgated the Petroleum Decree (No 51) of 1969 that vested all the lands and the resources in, under or upon the Land on the Federal Military Government.

The foregoing explains why the 1999 constitution has unitary features and represents little departure from the past as a creation of the military (Jega, 2007). In terms of fiscal federalism, the 1999 constitution provided in sections 31, 44(3) and 162 (1), (2), for:

- The entire property of all minerals, mineral oils and natural gas in Nigeria or its territorial waters are vested in the Federal Government.
- The principle of derivation shall be reflected in any approved formulas which are not less than 13% of the revenue accruing to the federation account from natural resources in any state.
- A special account called the Federation Account into which revenue collected by the government of the federation shall be paid except personal income tax of the personnel of the armed forces, the Nigerian Police Force, the Ministry or the department of government charged with responsibility for foreign affairs and the residents of the Federal Capital Territory.
- The National Assembly to ratify the allocation formula after receiving the proposal from the President who has been advised by the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC)
- The National Assembly is to consider the population, equality of states, internal revenue generation, land mass, terrain as well as population density before making a decision.

The above suggests a perpetuation of the status quo, even in a democratizing environment. The centralisation of revenue resources at the federal centre and the lopsided sharing formula in favour of the centre has far reaching implications for national integration and stability. This glaring disconnect is central to the increased agitation for 'resource control' and the clamour for a drastic review of the sharing formula of the federally collected revenue that reflects true federalism. In effect, the fiscal autonomy derived from coordinate and independent fiscal powers by the regions/states between 1954 and 1966 is virtually ineffective in the Nigerian federation today.

Understanding the politics and debates of fiscal federalism in Nigeria

Depending on the politics, geographical and ethnic origin, various stakeholders have adopted contending positions in the fiscal federalism debate in Nigeria. The Niger-Delta region of Nigeria, where

the petroleum resources are obtained, are prone to using violence, if necessary, to resolve the fiscal federalism debacle and want ‘absolute control’ or ‘resource control’ of the natural resources in their homelands with a willingness to pay appropriate taxes to the Federal Government (Ukpong & Obok, 2018). The militants in there, claim to be acting on behalf of their communities and in defence of their peoples. Ifeka (2001, p. 101) notes that an oil producing community:

...usually believes that its position as ‘host’ to an oil company means that they are...the ‘real’ owners of the resource. This emboldens them to claim that oil found under the waters or land...belongs to them and that they are therefore entitled to claim the revenues accruing from it.

The second group in the struggle for the institution of a just fiscal federalism in Nigeria is the political class. They are more conciliatory as they demand political autonomy within the Nigerian federation but insist on being allocated adequate share of the revenue derived from the resources in their states. However, what amounts to adequate share has been a matter of disagreement and ranges from 25 to 75 per cent. It has been noted that they often make this demand using the agitation for resource control as a bargaining chip (Ukpong & Obok, 2018). The third group in the contestations over fiscal federalism is the Federal Government, the major beneficiary of the status quo. It is predictably opposed to the agitations for resource control by the oil producing states in the Niger Delta region. The position of the Federal Government is seen as approximating the position and interest of the states and peoples in the northern region who do not host the oil companies and therefore do not contribute to the oil revenue.

On the other hand, the northern states and peoples, the fourth group in the fiscal federalism debacle, regard the agitations of their Niger Delta counterparts as ‘treacherous’ arguing that oil being ‘God-given’ should belong to the whole country. Moderate elements in the north would rather have the Niger Delta elites advocate for favourable modifications in the revenue allocation formula and improved welfare conditions for their peoples, while the northern hardliners insist that the agitation for resource control would not be actualised within the framework of the Nigerian federation (Nzemeke, 2001, p.4). The attitude of the peoples in the Niger Delta to the position of those opposed to fiscal federalism, according to Nwankwor (1993, p.18) was articulated by a member of the Federal House of Representatives when he stated in 1993:

That the oil in the Nigerian soil is regarded as national wealth only because it is found in the land of the southern minority ethnic groups. ... If petroleum were found in the soils of the majority ethnic groups, the law decreeing petroleum products a national wealth would not have been enacted.

The impact of this longstanding bickering over fiscal federalism on nation-building is the increased polarisation of the country along ethnic and regional divides and the institution of the culture of violence promoted by radical ethnic and regional apologists. The manifestation of the popularity of the violence option in the resolution of the national question is the emergence and preponderance of militia groups of diverse sectarian persuasions across all the regions of the country. Some of these militia groups include the Oodua Peoples Congress (OPC), Independent People of Biafra (IPOB), Ijaw Youth Movement, Movement for the Actualization of the Sovereign State of Biafra (MASSOB), Movement for the survival of the Ogoni People (MOSOP), Movement for the Emancipation of the Niger Delta (MEND), Egbesu Boys, Yandaba, among others.

Implications of Nigeria’s Politics of Revenue Allocation National Stability

The issue of fiscal federalism has remained dominant and most contentious in Nigeria's polity, over the years. According to Arowolo (2012), fiscal federalism in Nigeria has crystallised and remained dynamic as a result of its multiplicity in terms of ethnic composition and pluralism vis-à-vis socio-cultural dimensions. It is therefore expected that interactions in terms of fiscal relations will be characterised by hostile competition, unending struggle and survival of the fittest syndrome. Given the nature of the colonial administration, which was unitary and the centralised nature of successive military regimes in Nigeria, which was hierarchical in nature, the Federal Government consequently enjoyed a financial hegemony over the federating units, thus creating disaffection and disharmony in the country. The nature of fiscal federalism in Nigeria has reinforced the structural vulnerability of the constituent units and intensified the pressures for better federal economic patronage.

Fiscal laws in Nigeria tend to give more powers to the federal government than the federating units combined. In fact, there is an increased dependence of the federating units on the federal government particularly for their finances. State and local governments are neither given any strong fiscal incentive nor encouraged to generate revenue internally. In view of this, they are weak financially, whereas the weak financial base of States cannot strengthen or guarantee true federalism. As a result, there are discontentment, conflicts and agitation by the two other tiers against the federal government for self-reliance. It is argued that, for any federation to be sustained there must be fiscal decentralization and financial autonomy.

However, in the case of Nigeria, there is fiscal centralization. Furthermore, it is right to argue that oil revenue is a curse and appears to be tearing the Nigerian nation apart and creating a deep gulf between the oil producing minorities and the majority ethnic groups on one hand and between the Southern part of the country and the Northern part, on the other hand. Oil has become an object of intense politics in Nigeria since its discovery. This is so in that more than any other resources, it has brought a lot of revenue to the country and those that equally have access to it. Therefore, there is political contestation as to who controls the wealth emanating from oil. This has made the politics intense, intractable and irresolvable (Omotosho, 2010). Before the discovery of oil, the principle of derivation was adopted in revenue sharing which allowed individual region/state to have adequate control over the resources located within their respective territories. Omotosho (2010), further opines that at the period, the big three ethnic majorities; viz: the Hausa/Fulani; Igbo and Yoruba had groundnut, palm oil and cocoa, respectively. These products were the major resources and the mainstay of the nation's economy. While the big three were allowed to control their resources, the system changed however, after the discovery of oil.

With the centralisation of power and resources at the centre, the struggle for the control of the centre became intense and the frustrations of those who lost out also intensified. With these came dissatisfaction with the management of the national resources and increased feelings of discrimination, inequalities and marginalisation by those who feel excluded in the control of power at the centre. In the oil producing communities in particular, these feelings and perception of discrimination and marginalisation resulted in the emergence and proliferation of radical activist youth organizations, which began to agitate against the activities of oil companies in those areas, as well as demand for a better share of the oil revenues for the development of their communities. It is in this context that the demand for resource control emanated.

According to Jega (2007), several factors account for the intense and conflict-prone politics of fiscal federalism in the Fourth Republic. These include:

- i) A fundamental shift from federalism to unitarism under prolonged military rule;
- ii) Decreasing emphasis on the principle of derivation in the sharing of revenues

- iii) Increased arbitrariness by military regimes in distribution of pooled revenues in the Distributable Pooled Account (DPA) or the Federation Account (FA)
- iv) An inexplicable systemic neglect of the environmental and ecological degradation, which has occurred in the oil producing communities as a result of increased exploration and mining activities
- v) The resultant deep-seated feelings and perceptions of marginalisation, which pervade the communities in oil producing states, and
- vi) The opportunistic attempts of some of the elites in the oil producing areas to fund political relevance by championing a popular cause (Jega, 2007, p.207).

The awakening by the Niger Delta people and the consequent call for 50% derivation and or total resource control has set them on a war path with people and Governors of the Northern States. The current controversy between Northern Governors and their Southern counterparts, over how oil revenues accruing to the Nigeria should be shared has created a deep gulf in the ranks of the governors. The governors have been polarized under ethnic and regional lines over who gets what from the Federation Account. Political and opinion leaders across the polity have also joined the fray. Politicians in the nineteen (19) Northern States who want the derivation fund to be abolished or its percentage significantly reduced because its sustenance not only puts the North at a disadvantage but also poses danger for the part of the country where literacy, poverty, ignorance and general backwardness are much. The oil producing States, on the other hand are determined to fight back to protect their right and push for a progressive increase in the derivation formula up to fight (50) percent to cushion the impacts of years of marginalization and environmental degradation by the oil companies in the region political watchers fear that the oil producing states could revive the age long agitation for total resource control or demand a review of the current derivation formula from the current 13 percent to 50 percent (Eme & Anyandike, 2012).

In addition to the cry by the Northern Governors, the former governor of the Central Bank of Nigeria, Lamido Sanusi, had in an interview with The Financial Times of London, decried what he termed the low allocation to Northern states from the Federation Account. Sanusi had linked violence in the North, particularly the activities of the violent Islamic sect, Boko Haram, to the uneven distribution of the country's wealth. He had said that attempts to redress historic grievances in Nigeria's oil-rich south might have inadvertently helped create the conditions for the sect's insurgency. He also opines that it was necessary to focus funds on regenerating other regions if Nigeria wanted to secure long-term stability (Isine, 2014).

Again, as Omodero, Azubike & Ekwe (2018) posit, the Governors of the South have affirmed that the Federal Government is holding to too many responsibilities and power that are supposed to be within the purview of the federating states. The Governors considered it expedient to review the existing arrangement and devolve more power to the states. The Governors further deplored the imbalance in resource allocation to states that make up the old Western Region given their contributions to the National Gross Domestic Product (GDP). The Governors reaffirmed their determination to ensure that justice is done on the revenue allocation framework in the country. This accounts for the unending clamour for the restructuring of the Nigerian federation.

Another source of conflict in the fiscal policy of Nigeria is the manner of the sharing of national revenues between Federal and State governments, which is presently characterised by the federal government appropriation of what the States have considered to be a disproportionate high percentage.

Currently, the revenue allocation formula is 52.68 per cent for the Federal Government, 26.72 per cent for States and 20.6 per cent for council areas. The Nigerian Governors Forum have advocated for the review of the sharing formula to stand at 35 per cent for the federal government, 42 per cent for the States and 23 per cent for the local governments (Eliagwu, 2011). More so, this sharing formula has been contentious and accounts for the various sections of the country to control the centre (Eme & Anyadike, 2012).

The apparent failure by stakeholders to devise an equitable and generally acceptable revenue sharing formula for all the major stakeholders in the federation, especially, the thirty-six States of the federation has led to the increased frictions in inter-governmental relations and the rising pitch of the demand for resource control by some communities and states in the federation, which has gone a long way to weaken the already tattered fabrics of the Nigerian federation and threatens the basis for national cohesion and unity and significantly constrain the foundations of stable growth and socio-economic development. The interplay of these factors, coupled with self-centeredness of the elite in a state-based political economy has grave implications for national stability in Nigeria. A good example of the ramification of this type of fiscal federalism is the politics of resource control by the oil producing states and militant/violent activities in the Niger Delta.

Conclusion and the Way Forward

Nigeria's federalism has undergone series of structural adjustment both under the military and the civilian administrations. However, the Nigerian experience with revenue allocation is that there has been no permanent and once-for-all solution to the problem of federal revenue allocation. There is hardly any one principle which has enjoyed or is likely to enjoy the support and advocacy of all the States of the Federation at any one point in time. Each State changes its advocacy of particular principles according to the prevailing circumstances. More so, Nigeria's federalism has emphasized more on compromise in the socio-economic and political interests than the technical approach in revenue allocation formula formulation. More so, the centralization of power and revenue resources is at the base of the problem of fiscal federalism in Nigeria, as it clearly violates the principles of true federalism.

The problem of Nigeria's federalism as presently structured goes beyond fiscal centralism to include other issues of power and authority devolution between the units. In point of fact, the way and manner in which the problems of fiscal federalism and revenue allocation are handled will greatly determine the cohesion, stability and even the continued existence of Nigeria. There is therefore the need to decentralise power in Nigeria to give more responsibilities and corresponding resources to the lower levels of government which are closer to the people. Again, the massive revenue accruing to the Nigeria government should be used to develop and diversify other sectors of the economy, thus driving it away from monoculturalism. This will reduce the emphasis and dependence on the petro-dollar and handouts from the federal government.

It is therefore recommended that for lasting solution to the country's socio-political crises and correcting the distortion of federalism, there is need to involve the restructuring of the system in order to make the centre less powerful and politically less attractive. Again, component states should be independent of the federal government as possible; states should be responsible for providing almost every social service from education to housing, and from health to roads. The federal government should concentrate on areas of common concern such as minting of currency, external relations, defense, and regulation of international trade.

The control of onshore resources of whatever kind should be that of the states. Each state taps its resources and pays certain percentage of revenue accruing from the resources to the federal government. This will make each state look inwards for its own resources, rather than rely on the federal government.

It is also recommended that the geese that lay the golden egg should be specially taken care of hence there is nothing wrong in developing the oil-producing communities as such act will only help in the development of the entire nation. This is based on the fact that these communities are producing the resources on which the entire nation depends on. A look at Abuja will convince any ardent observer that there is nothing wrong with developing these communities.

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