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Politics of Revenue Distributive Mechanism in Nigeria: An Evaluation of the Nigerian Federalism

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ABSTRACT

The federal constitution of Nigeria was duly articulated and somewhat adopted to ameliorate the nagging issues emanating from the highly concentrated cultural cum socio-political diversity inherent among the ethnic nationalities formerly enjoying self-method of administration and religion. The British colonial authority that adumbrated the supposed unification modalities, did not out rightly downplay the consequences of this variation but applied certain measures to recognize the need to preserve traditional values in politics, administration and essentially, futuristic objectives of the concerned ethnic nationalities. Application of the principles of federalism, douses tensions in governance, politics, administration, revenue cultivation and distribution of values in the polity. We employed qualitative descriptive analysis in unravelling the abysmal socio-economic and political development which hitherto have been overwhelming the federation of Nigeria from attainment of the millennium developmental goal.

Introduction

In Nigeria, the problem which has not only defiled all past attempts at permanent solution but also a tendency for evoking high emotions on the part of all concerned each time it is brought forth for discussion or analysis, is the issue of revenue allocation (Mbanefoh & Egwalkhide, 1998). This is an issue that has been politicized by successive administrations in Nigeria whether civilian or military. Indeed, in virtually all federations in which the constitution shares power between the central and regional or state governments and for each level to be within a sphere coordinate and independent (Wheare, 1963), enough resources need to be allocated to each to justify their existence. The nature and conditions of financial relations in federal systems particularly, that of Nigeria which has transfixed on a multi-ethnic society is crucial to her continuing existence. The Nigerian practice has assumed political, religious and social dimensions. According to experts, allotments of money (resources) must reflect social and economic conflicts between classes and groups. It is therefore, not surprising that, the basis of federal statutory revenue allocation has always been one of the most contentious and destabilizing factors in the Nigerian polity (Dang, 2013).

Nigeria is a federal society comprising 36 states structure with a population of more than 150 million people and has more than 250 ethnic groups, which necessitate an arrangement that could accommodate people from the different segments of the country (Dang, 2013). Every government pursues economic development by trying to achieve macroeconomic objectives in a particular system of government. Various systems of government include federation, unitary, and confederation (Dang, 2013).

The Nigeria's system favours federation. The federation of Nigeria achieves her macroeconomic objectives by performing the functions of resource allocation, income distribution/redistribution, and economic stabilization within the central government, that is, federal government and its units (states and local governments). This system of performing government functions in different tiers of government is called fiscal federalism (Bashiru, 2001; Likita, 1999). The notion of federal character and fiscal federalism presupposes the existence of a federal society. Federal Systems all over the world are today increasingly seen as political arrangements that afford an opportunity for the myriad diversities within a political system to find legitimate expression (Okolo, 2014). Federalism is essentially about multilevel government structure, rather than within a level structure of government, for the performance of government functions and service delivery to the people. Each level of government can be viewed as an institution with definite functions to perform (Igwe, 2005). The conventional wisdom in economics is that all functions allocated to government should be those that the market is not able to perform in the efficient allocation of resources, equitable distribution of income, and economic stability and growth (Varian, 1990; Layard and Walters, 1978).

There are different forms of federalism (Lanre, 2017). The prominent ones are fiscal, political and administrative. Decentralized systems of government give rise to a set of fiscal exigencies referred to as fiscal federalism also known as fiscal decentralization. It refers to the scope and structure of the tiers of governmental responsibilities and functions, and the allocation of resources among the tiers of government to cope with respective functions. Decentralization encompasses a wide range of distinct processes. The main ones are administrative deconcentration, or the transfer of state functions from higher to lower levels of government while retaining central control over budgets and policy making; fiscal deconcentration, or the ceding of influence over budgets and financial decisions from higher to lower levels; and development or transfer of resources and political authority to lower-level authorities that are independent of higher levels of government (Ali and Ahmed, 2019).

The concept of concentration and deconcentration are issues relating to decentralization. De-concentration is often considered to be the weakest form of decentralization and is used most frequently in unitary states that redistribute decision making authority and financial management responsibilities among different levels of the central government. It merely shifts responsibilities from central government officials in the capital city to those working in states, regions, provinces or districts, creates strong field administration or local administrative capacity under the supervision of central government ministries.

Political federalism deals with the devolution of powers between tiers of government, where the tiers each, within a sphere, coordinate its partially independent tasks (Oates, 1972; et al). It follows, therefore, that there would be constitutional or some legal provisions to protect the autonomy of the different tiers of government.

Administrative federalism, on the other hand, involves delegation of functions to lower-level governments, usually according to the guidelines or controls imposed by the higher level government and, therefore, without the autonomy which is characteristic of decentralization. Of the different forms of federalism the one of relevance in this study is fiscal federalism. Fiscal federalism is a system of taxation and public expenditure in which revenue-raising powers and control over expenditure are vested in various levels of government within a nation, ranging from the national government to the smallest unit of local government (Anyafo, 1996). Basically, fiscal federalism emphasizes on how revenues are raised and allocated to different levels of government for development and co-existence.

Conceptual Analysis

Federalism

Federalism emerge either through coerced authority of a foreign power hence institutive federalism or through voluntary agreement of the constituent units hence constitutive federalism. Nigeria federalism conforms to the former type as the Nigerian federal constitution was imposed by the British colonial power (Aondoakaa and Orluchukwu, 2015). Meanwhile, the US federalism was an example of the latter type of federalism as constituting states wilfully joined the confederation and subsequently federation.

Federalism originated from Latin word 'foedus', genitive 'foederis', which means pact, contract, treaty, agreement, alliance, and so on, is an agreement by which one or more heads of family, one or more towns, one or more groups of towns or states, assume reciprocal and equal commitments to perform one or more specific tasks, the responsibility for which rests exclusively with the officers of the federation (Proudhon in Karmis and Norman, 2005).

The essence of federalism lies not in the constitutional or institutional structures but in the society itself Federal Government is a device by which the federal qualities of the society are articulated and protected (Livingstone in Okolo, 2014). Beyond this, each federation must have its own characteristic make-up, which depends largely on how successful the founding fathers allowed the characters of the federating units to determine the structure and composition of the federal constitution. In other words, and according to Okolo (2014), the distinctive character of each federation, and by extension its stability, would appear to depend on the degree of harmony or congruence, which exists between the structure and usages of the constitution, the narrower the gap between the two, the greater the stability, while the wider the gap, the higher the incidence of instability. The Nigerian Federal system plays a preeminent role in this distributive process. Succinctly, owing to its explicit legitimation and accommodation of sectional-territorial constituencies, the federal system provides the structural and institutional framework for the organization and mediation of the ethnic competition for public resources in Nigeria (Suberu, 2011).

The fact is that the founding fathers took cognizance of the situation of the State as development progressed and opted for a system of government that would neutralize the political threats and accommodate the divergent interest of the various ethno-cultural and minority groups. This desire which eventually found expression in the federal system of government as a diversity management technique is still struggling hard to accomplish anticipated goals (Olu-Adeyemi, 2017). Most countries have several tiers of government. In addition to the national level, many countries have two sub-national levels; i.e. provincial (or regional) and local governments. Furthermore, local authorities are often divided into sub-levels such as ward and village councils. In many countries the lower levels of government undertake important fiscal functions, both on the expenditure side and with respect to revenues (Boadway and Watts, 2004).

The concept of federalism implies that each tier of government is coordinate and independent in its delimited sphere of authority and should also have appropriate taxing powers to exploit its independent sources of revenue (Vincent, 2001).

The above position is well established by Professor K.C Wheare; the globally acknowledged father of contemporary federal theories. Wheare (1963) defined federalism or federal government in his famous book: Federal Government, as "the method of dividing power so that general and regional governments are each within a sphere coordinate and independent". In the words of Hague and

Harrop (2001), the distinctive feature of federalism is that legal sovereignty is shared between the federal government and the constituent states. They went further to add that a federal constitution creates layers of government with specific functions allocated to each. The relationship between federal and state governments according to Hague and Harrop (2001) are the crux of federalism.

According to Friedrich (1966) federalism is a union of group selves united by one common or more objectives, but retaining their distinctive group beings for other purposes. By this conception, it is correct to accept that federalism is at the inter group level what association is at the interpersonal level. It unites without destroying the selves that are uniting and is meant to strengthen them in their mutual relations. In the words of Ricardo (1993), Federalism is a process without required form or practices, a process constantly in a flux under evolution… a conceptualization with some human systematic analysis, brought to show that federalism thrives in a continuous flux. That it involves fluidity wherein the federalists from the units allow for processes of continued evolution towards the emergence of greater good for all through compromise in their diversities. It is imbued with capabilities inherent in the various units and subsuming them.

Corroborating the above, Onwe (2011) maintained that federalism is the putting of understanding and bonds through agreement in law between independent entities to satisfy the need for autonomy and freedom, on the one hand, and for order and security on the other hand. He went further to add that federalism is an Omnibus concept that contains as much characteristics as can be assigned to it, so long as such are signed for the good of all in pursuit of unity in diversity. He concluded that some scholars have come to conceive federalism from predominantly legalistic postulations.

Thus, Grodzius quoted in Gamble and Payne (1996:124) observed that "federalism is a formal legal set of relationships aimed at the distribution of power between central and peripheral units of government. Thus, there must exist at least two tiers of government. The need for a legal structuring of the federation units can further be understood when we look at the security needs of the units. The desire here is for a legal order that protects each units from threats of over aching interests that are abound to emerge within the federation to the units. This is why federations are characterized by extensive intergovernmental relations in which federal, state and local governments work together, seeking to identify policies on which all participants can agree.

In fact, a common element of all definitions of federalism is the recognition of the existence of a central as well as other equally independent units of government. Federalism is distinguished from co federalism, in which the general level of government is subordinate to the regional level, and from devolution within a unitary state, in which the regional level of government is subordinate to the general level. It represents the central form in the pathway of regional integration or separation, bounded on the less integrated side by co federalism and on the more integrated side by devolution within a unitary state (Odigwe and Aibieyi, 2015). In a federation, the division of power between federal and sub national governments is usually outlined in the constitution. Almost every country allows some degree of sub national self-government, in federations the right to self-government of the component states is constitutionally entrenched. Component states often also possess their own constitutions which they may amend as they deem fit, although in the event of conflict the federal constitution usually takes precedence (Olu-Adeyemi, 2017).

Fiscal Federalism

Fiscal federalism in Nigeria dates back to 1954 when the country, which had until then been governed as a unitary state by the British, adopted a federal constitution. Fiscal federalism according to Ajibola (2008) denotes an intergovernmental fiscal relation defining functions and responsibilities among the various tiers of government as well as the financial resources to achieve stated objectives. It is a term used to describe a system of government in which the fiscal responsibilities rest with the various tiers of government in the country. In Nigeria, for instance, the federal, state and local governments have the joint responsibility of generating and expending revenue to carry on government responsibilities. Fiscal federalism therefore relates to the division of tax income and functional responsibilities among the various tiers of government in a federal state (Arowolo, 2011).

Fiscal federalism refers to the allocation of tax powers and expenditure responsibilities between the levels of government. Thus under fiscal federalism, any one individual is subject to the influence of the fiscal operations of different tiers of government. This is akin to what Sylvester and Ade (2018) referred to as economics of multilevel or federal systems of government when he opined that the public sector is stratified into more than one level of government, each having a different set of expenditure responsibilities and taxing powers. The term "fiscal federalism" itself is rooted in a political arrangement called federalism. Wheare (1963) describes federalism as "the method of dividing powers so that general and regional governments are each, within a sphere, coordinate and independent.

Wheare (1963:231) believes that if states authorities, for example, found that services allocated to them in a federal system are too expensive to perform, and if they call upon the federal government for grants and subsidies to asset them, they are no longer coordinate with the federal government, but subordinate to it. Financial subordination makes an end of federalism, in fact, no matter how carefully the legal forms may be preserved. It follows, therefore, that both states and federal authorities in a federation must be given the power in the constitution, each do have access to and power to control its own financial resources; each must have power to tax and to borrow for the financing of its own services by itself.

For any federation to be sustained there must be fiscal decentralization and financial autonomy. Fiscal decentralization means delegating decision-making to lower levels of government instead of concentrating it at the centre. Each level of government, therefore, should be free to take decisions and allocate resources according to its own priorities in its own area of jurisdiction. In addition, the federating units should be able to act independently on matters within their own jurisdiction (Uchegbue, 2017).

Multilevel/Multiunit Government system and Division of Responsibilities

The case for federalism is identical with that for partial decentralization of government. The fact that a unitary government is stratified generalizes the federal principle and also poses the vital questions regarding why there should be multilevel governments as well as what the optimal level of decentralization should be. The question then is: why is it desirable to have more than one level of government as is the case in Nigeria, Australia and the USA?

Federalism is justified on political, economic and socio-cultural grounds. Politically, federalism could arise as a dynamic application of constitutional development in the process of nation building, emerging as a functional arrangement among states or more accurately among communities (Sadiq, 2019). Viewed in this broad sense, federalism is a process of unifying power within a cluster of states and decentralizing power within the unified state, given the philosophy of unity in diversity in a spectrum beyond the extremes. The extremes refer to; on the one hand, a cluster of states without any systematic arrangements for unified action and, on the other, the fully unified state in which sovereignty is indivisible. But, once decentralization is involved, fiscal federalism is derived.

The economic reason for the existence of multilevel/multiunit government is the existence of public goods and services with differing geographical spread of benefits. Because of this, the functions of government are classified into the provision of national, regional (state) and local public goods and services. This is a consequence of the spatial limitation of benefit incidence of public goods and services, a conception that justifies the definition of public goods as non-excludable and/or non-rival in consumption, subject to capacity constraint. Some social goods are national in that their benefits spread across the entire nation (examples are national defence, medical research findings, macroeconomic stability, national pride, among others), while others are geographically limited (example are local fire service or street light).

For the latter, clearly, the benefits are limited to residents within the radius of the benefits circle in which the facility is located. Some other commodities have spill over effects such that a larger unit of authority is required to coordinate their supply such as interstate and inter-local government roads and bridges. For analytical purpose and with reference to federalism, this distinction is fundamental. The theoretical case for fiscal federalism can now be couched a little more specifically as follows: is it optimal for one level of government to provide for national and local public goods and, at the same time, be responsible for the distribution and stabilization functions of government? Thus, the rational for multilevel/multiunit government is the existence of benefit regions of diverse geographical sizes. This directly raises the issue of optimal community size. Once this is settled the assignment problem and the allocation function become much easier (Musgrave and Musgrave, 1989; Taiwo, 1999).

Musgrave (1959) divides government activity into allocation, distribution and stabilization functions. By this classification, stabilization and distribution functions should be under the jurisdiction of the central government while allocation functions are shared among the different levels of government. It has been argued at the theoretical level, that the central government would be in a better position to perform the distribution and stabilization functions as well as provide national public goods (Oates, 1972; Musgrave and Musgrave, 1989; Cremer et al 1995; Taiwo, 1999).

All of these functions will be inefficiently performed at the local government level for two interrelated reasons- difficulty in appropriating the full social benefits of the programme undertaken at that level, and the tendency towards the free rider problem. With regard to the former, the local government tends to take into consideration only its own marginal costs and benefits when deciding on its level of provision, and ignores the benefits conferred on other local governments. Consequently, the locality insofar as it confers benefits on other localities, will tend to operate at a level which is lower than the nationally desired level. This problem is unlikely to arise if the decision is taken by the central government, as all the associated costs and benefits would be internalized and national marginal costs and benefits taken into consideration. The same argument prevails if it is external costs that are imposed on other localities. However, in this case, the locality's level of operation will be more, rather than less, than what is nationally acceptable. Another related problem is the free rider problem which occurs when other localities cannot be excluded from enjoying the service provided (Raimi and Odubo, 2018).

The locality that is responsible for providing the national public good has the option of continuing with the provision of the good, and if this is done, given the fact that we are dealing with a public good, the locality's level of operation will be suboptimal. It will be at such a level where the marginal cost is equal to the sum of the marginal values placed on the additional unit of the good by local residents. The benefits that are conferred on the other localities will be ignored in the decision making process since such benefits cannot be appropriated. The desire for efficiency then compels one to turn to the central government, which is in a suitable position to appropriate all social benefits (Olalekan, Omidiji and Williams, 2019).

The traditional economic case for fiscal decentralization runs in terms of an improved allocation of resources in the public sector. Regional or local governments are in a position to adapt outputs of public services to the preferences and particular circumstances of their constituencies, as compared to a central solution that presumes one size fits all. Moreover, in a setting of mobile households, individual can seek out jurisdictions that provide outputs well suited to their tastes, thereby increasing the potential gains from the decentralized provision of public services (Oates, 1972).

At the practical level, there are also a number of arguments in favour of fiscal decentralization (Igwe, 2005; Onwe, 2011; Uchegbue, 2018 and Uchegbue 2020;). First, decentralization promotes competition among localities, by encouraging each and every one of them to provide a different menu of public goods. Second, it encourages experimentation and innovation since the various localities are unlikely to adopt the same techniques of production and since other localities will want to share in the gains of development. Decentralization is also capable of promoting accountability and responsibility as localities, in taking their decisions, would be driven into matching their costs with their benefits. When local activities are funded by the central government, the tendency would be to over provide and over consume since a substantial part of the burden would be borne by other localities. It is the same free rider problem that would be at work here. Finally, decentralization provides the political glue for countries with regional ethnic, racial, linguistic or cultural diversity as in Ethiopia and Nigeria; and also serves as a mechanism for democracy.

Having established a rationale for the institution of the central and local governments individually, the case for federalism or multilevel government is made. From the arguments adduced, the division of responsibilities between the different tiers of government appears relatively straightforward. The central government has comparative advantage in the provision of national public goods and in performing the distribution and stabilization functions. On the other hand, local governments have comparative advantage in the provision of local public goods, especially those whose preferences vary geographically and for which there are no substantial economies of scale. To reap these advantages, both tiers of government should coexist and be assigned functions in which each has comparative advantage.

Nevertheless, experience has shown that these strategies alone do not guarantee effective control of sub national governments. As a result, many federal systems which operate fiscal decentralization tend to set up institutions for fiscal coordination. Such coordinated approach attempts to utilize the principle of moral suasion, through joint meetings, to include a consensus on fiscal matters affecting economic management. The strategies that are usually negotiated include the preservation of an internal common market, tax harmonization and coordination, as well as the coordination of budget preparation and implementation. Uchegbue, (2020) has suggested that constitutional guarantee for free domestic flow of goods and services may be the best alternative to assigning fiscal responsibility in a multilevel system of government.

Dysfunctions

This is when things are not working properly. In the context of this study, economic dysfunction is the abnormality in the economy of Nigeria which can be attributed the effects of the practice of federalism in Nigeria.

Economic

Relating to trade, industry and the management of money. Contextually, this means the policies adopted by the government to manage money, trade and industries in Nigeria among the three tiers of government.

Revenue allocation

Revenue allocation can be described as a method(s) of sharing the centrally generated revenue among the different tiers of government and how the amount allocated to a particular tier is shared among its components

Sharing Formula

This is a method or set of principles that is used to solve or to make sure that things are distributed evenly. Contextually, it implies the methods o set of principles adopted by the Nigerian government in the successful sharing or distribution or allocation of revenues among the three tiers of government.

Three Tiers of Government

Three tiers of government in this context refers to the federal government, state governments and local governments in Nigeria.

Statement of the Problem

Fiscal federalism is the product of the reciprocal and dynamic interaction between different tiers of government, and therefore poses questions as to how the nature and conditions of the financial relations in any federal system affect the production and distribution of the wealth of a nation. In particular it influences how political decisions and interests influence the location of economic activities and the distribution of the costs and benefits of these activities.

The issue of derivation principle and allocation among the three tiers of government have generated a lot of debates among writers. According to Uchegbue (2020), the derivation principle started when agricultural resources had the largest contributions to the national revenue. During this period, derivation, as one of the principles of revenue sharing in Nigeria, was 50 percent.

Therefore, the existing regions at the time had enough revenue and control to address their individual problems. But today (Uchegbue (2020) contends that the issue of revenue allocation in Nigeria has reversed the old derivation principle. He noted that with the deemphasization of derivation, the oil-producing areas now suffer marginalization and neglect. He suggested that these areas need a fair share of the revenue derived from the oil that is produced from their God-given land. Deemphasise on the use of derivation principle has brought a lot of untold harm on the country’s economy. The huge revenues from the oil sector have made it unattractive for non-oil producing areas to exploit their other non-oil revenue earning potentials. Consequently, all the States and Local Governments have now focused all their attention on the revenue from the federation account. The discordance between fiscal capacity of various levels of government and their expenditure responsibilities, the non-correspondence problem, is a striking feature of the Nigerian federal finance (Mbanefoh & Egwaikhide, 2000).

From independence in 1960 till date, the Nigeria’s fiscal management system (federalism) has neither been efficient nor equitable (Ikeji, 2011). The Federal Government has, for more than four decades assumed certain responsibilities which rightly belonged to the lower tiers of government and, in the process, had compromised efficiency in public expenditure management, resulting in high levels of unsustainable overall deficits, high inflation, slow economic growth and poor external sector balance (Onwe, 2011).

Essentially, Nigeria is a plural society, its constituent groups are detached from each other by substantial differences of ethnicity, language, cultures, and traditions. Nigeria formed differences in character, outlook, and attitudes, faced with the problems of federalism. Nigeria accepted federalism as a means of accomplishing its much-needed goal of national unity among people of different religion, ethnicity, and culture. In essence, the federalism so adopted is expected to lessen the massively destructive inter-ethnic competition and tension, alleviate the usually assumed fear of majority and minority domination, and bringing government closer to the people and give these diverse groups more opportunities, thereby integrating the country (Ali and Ahmed, 2019).

All these put together have far-reaching implications for the harmonious co-existence of the component units and hence of the system as a geo-political entity (Silas, 2018). The success of a federal system depends on an acceptable distribution of resources and functions among the different tiers of government (the Federal government, 36 States of the federation and the 774 local government areas) so that efficiency in the use of scarce resources is encouraged towards achieving economic stability. All these are the issues of concern in this study.

The First Phase of Revenue Allocation, 1946-1967

The first phase of revenue allocation was characterized by reports and recommendations of ad-hoc fiscal commissions which, in turn depended on the nature and form of past constitutional arrangements. The task of the early fiscal commissions, from Phillipson Commission of 1946 to Sir Louis Chicks Commission of 1954 was limited to allocating equitably to the regional governments total "non-declared" revenue (consisting mainly of import and export duties and excise and company taxes) which, under the Constitution, was determined by the central government. All the commissions generally chose derivation as a major/single criterion for allocating block grants from "non-declared" central revenues. According to the Phillipson Commission, each region's share was strictly calculated in accordance with its contribution to such revenue and their respective shares were as follows: North, 46 percent; west, 30 percent and East, 24 percent.

The Hick-Phillipson Commission (1950) shared non-declared revenue on the basis of derivation just like the Phillipson Commission, except that 50 percent of revenue from tobacco was shared to the regions on the basis of consumption. In addition, the central government's grants were made to each region on the basis of the number of male tax-payers in its population. The Sir Louis Chicks Commission (1954) slightly modified the earlier positions in two respects, that is, excise tax and 100 percent import duties on motor spirit were added to the revenue to be shared on the basis of derivation.

As a result of the dissatisfaction with the system of revenue allocation developed so far, particularly the Chick Commission Report and the 1951 Constitutional Conference, another Commission was appointed in 1958 under the Chairmanship of Sir Jeremy Raisman. The Report of this Commission, which was accepted by government, laid a solid foundation for the present tax and revenue allocation policies until the creation of the federation account (FA) in 1979.

The main features of Raisman's Report were as follows:

a. creation of the distributable pool account (DPA) which consisted of the following statutory payments – 30 percent of general import revenue and 30 percent of mining rents and royalties. The DPA, so composed, was shared among the regions as follows: North, 40 per cent; East, 31 percent; West, 24 percent and South Cameroons, 5 percent. In 1961, South Cameroons left the federation, and the DPA was redistributed as follows: North, 40/95; East, 31/95; and West, 24/95. In 1963, when the Mid-West was created the share of the then Western Region was divided between it and the new region in the ratio of 3:1;

b. the remaining mining rent and royalties were allocated as follows: 50 percent to the region of origin and 20 percent to the federal government which was also allocated 70 percent of general revenue;

c. the federal government was given exclusive jurisdiction over customs and excise duties, sales tax (except on produce, hides and skins, and motor fuel), rents and royalties and Lagos income tax; and

d. the regions were given control over personal (individual) income tax, produce sales tax, marketing boards and sales tax on motor fuel.

The 1964 Binns Commission increased mining rents and royalties paid into the DPA from 30 percent to 35 percent. The DPA, so composed, was distributed as follows: North, 42 percent; East, 30 percent; West, 20 percent and Mid-West, 8 percent.

The Second Phase of Revenue Allocation, 1967-1979

Following the creation of 12 states in May, 1967 the Constitutional (Financial Provisions) Decree No. 15 of 1967 was promulgated to share the revenue in the Distributable Pool Account (DPA) among the new states as follows: East Central, 17.5 percent; Lagos, 2 percent; Mid-West, 8 percent; the six Northern, states 7 percent; South Eastern, 7.5 percent; Rivers, 5 percent; West, 18 percent. The decree did not apply any uniform principle to all states. In particular, it failed to take cognizance of the key elements which formed the basis of the previous allocations of revenue among the regions, namely, population, derivation, consumption, among others.

Subsequent decrees between 1970 and 1975 aimed at correcting the anomalies of Decree No. 15 of 1967, by reallocating revenue to states on a more equitable basis. Decree no. 13 of 1970 (which took effect retroactively from April, 1969), Decree No. 9 of 1971 and the revenue allocation arrangement which took effect from 1ST April, 1975, had the following features:

a. the newly enlarged Distributable Pool Account (DPA), which consisted of 80 per cent of onshore mining rents and royalties, was shared on the basis of consumption (customs and excise duties) including all offshore mining royalties previously enjoyed only by the federal government;

b. the derivation principle, as applied to sharing of oil and non-oil revenue, was de-emphasized. For example, by 1975, revenue payable to states on the basis of derivation, such as mining rents and royalties, was reduced from 45 percent to 20 percent;

c. a simplified system of revenue sharing among the states was introduced in 1969 and used up to 1980. These principles were; equality of states, 50 percent; and population (which also subsumed the principle of basic needs), 50 percent; and

d. from 1975 the military government abolished constitutional arrangements as the basis for revenue allocation. Instead, the federal government vested itself with the power to determine a logical time frame for reviewing and sharing of revenues among the various tiers of government in the federation.

Thus, between 1976 and 1979, revenue allocation was streamlined as follows:

a. the federal government retained all the revenue from petroleum profit tax and company tax, 65 percent of import duties (excluding tobacco, alcohol, motor spirit and diesel) and 50 percent excise tax; while

b. the Distributable Pool Account (DPA), which consisted of the remaining import and excise taxes, offshore royalties and 80 percent onshore royalties, was shared on the basis of population, 50 percent and equality of states, 50 percent; while 20 percent of royalties (onshore) was paid to states on the basis of derivation.

The Third Phase of Revenue Allocation, 1979-1999

Following the provisions of Section 149-150 of the 1999 Constitution, revenue sharing once more became a constitutional issue. Section 149(i) specifically created the "federation account" into which all revenues collected by the government of the federation was paid, except the proceeds of personal income tax of the armed forces, the Nigerian Police, staff of the Ministry of External Affairs and residents of the Federal Capital Territory (FCT). Section 149 (ii) states that the revenue in the federation account (FA) should be shared among the federal, state and local governments in a manner to be determined by the National Assembly (Silas, 2018).

In 1979, the federal government set up a six-man Revenue Allocation Commission under the chairmanship of Dr. P.N.C Okigbo. The Report of the Commission, which took into account the provisions of the 1979 Constitution, became the new basis for sharing. The Commission recommended among other things, that:

a. all revenue collected by the federal government should be paid into the federation account (FA);

b. such revenue should be shared as follows: federal government, 55 percent; state governments, 34.5 percent; local governments, 8 percent and FCT, 2.5 percent; and

c. out of the 34.5 percent allocated to states, 2 percent should be paid on the basis of derivation, 1.5 percent should go to the oil mineral producing areas, and the balance should be shared amongst the states on the basis of:

- responsibility or equality of states, 40 percent;
- population (1963 Census), 40 percent;
- social development factor, 15 percent; and
- Internal revenue effort, 5 percent.

Although the Okigbo Report was passed by a slim majority of the Joint Finance Committee of the National Assembly, unfortunately, the enabling Act-the allocation of Revenue (Federation Account, etc.) Act of 1982- which gave it credence was declared void by the Supreme Court in the same year. Therefore, the revenue sharing formula reverted back to the one used in 1978/79. However, the 1981 Allocation of Revenue Act, which slightly modified an earlier Act, was passed into law with effect from January 22, 1982. The revenue allocation principles and formula (as set out in the 1982 Act) is fully presented below, as they formed the basis for all future revenue allocations and subsequent modifications. The allocation of the federation account was as follows: federal, 55 percent; states, 35 percent and local governments, 10 percent. Out of the states' shares of 35 per cent, 30.5 percent was allocated to all states on the basis of the criteria established by the Okigbo Commission. The same principles were also applied in sharing revenue among all the local governments. The balance of states' share was allocated as follows:

a. federal fund for ecological problems, 1.0 percent;

b. mineral producing areas in proportion of the minerals extracted, 2.0 percent; and

c. federal fund for the development of mineral producing areas, 1.5 percent.

Thus, the 1979 Constitution had four important consequences on revenue sharing. First, the federal government ceased to monopolize the retention of fast growing revenues such as company income tax and petroleum profit tax. Second, the proportionate share of each level of government was fixed and made more certain. Third, the local governments hitherto regarded as arms of their respective state governments were recognized as an independent revenue sharing unit in the federation. Finally, the derivation criterion almost disappeared as an important principle for revenue sharing.

The 1984 Allocation of Revenue Act further modified the sharing formula as follows: federal, 50 percent; states, 30 percent; local governments, 15 percent and "others", that is, oil producing areas and ecological fund, 5.0 percent. In 1985, the federal government merely redefined the basis for allocating revenue to mineral producing areas with no significant shift in the percentage allocation. The sharing formula to date still remains the one established in 1992 and it is as follows: federal, 48.5 percent; states, 24 percent; local governments, 20 percent and "others" 7.5 percent shared between mineral producing areas and ecological fund called special funds. The provision of special funds was meant to cover the expenses of the Federal Capital Territory, derivation, and development of mineral-producing areas, general ecology and statutory stabilization. Between 1980 and 2000, intra-state and local government allocations of revenue were based on the principles and weights of equality of states/local councils (40 percent), population (30 percent), social development factor (10 percent), land mass/terrain (10 percent), and internal revenue effort (10 percent). The state governments are required by provisions of the 1999 constitution, like all other previous constitutions, to allocate 10 percent of their internally-generated revenue to the local councils and, in addition, set up a Joint Revenue Sharing Board for the local governments (Onwe, 2011).

In a bid to boost the revenue of government the value added tax (VAT) was introduced in Nigeria on January 1, 1994, following the recommendations of a Study Group set up by government on the reform of indirect taxation in Nigeria. VAT was introduced to wholly replace sales tax, which hitherto was a state government tax. VAT is aimed primarily at enhancing the revenue of all tiers of government since it is more broadly based than the original sales tax and also covers more categories of goods and services. It has a single rate of 5 percent for all goods and services (Ali & Ahmed, 2019).

The sharing formula for VAT revenue has changed nearly every year since its introduction. In 1994, the federal share was 20 percent and states, 80 percent. In 1995, the federal share increased to 50 percent while those of states and local governments were 25 percent each. Following the agitation by states for more revenue from VAT, however, the formula was changed in April of the same year (1995) to federal, 40 percent; states, 35 percent and local governments, 25 percent. In 1996, the rates were again changed as follows: federal, 35 percent; states, 40 percent and local governments, 25 percent. In 1999, the rates were: federal, 15 percent; states, 50 percent; and local governments, 35 percent.

VAT revenue accruing to states and local governments are shared on the basis of states/local governments of origin, 30 percent; consumption and destination, 30 percent and equality of states/local governments, 40 percent. The analysis, so far, clearly shows that between 1970 and 1999, the principle of derivation played an insignificant role in the horizontal distribution of federal revenue. For example, only 1.5 percent was allocated on the basis of derivation in 1990. However, the figure was adjusted to 13 percent in the 1999 constitution (Ali & Ahmed, 2019).

The Fourth Phase of Revenue Allocation, 1999 till Date

Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) inaugurated a Special Committee on Revenue Allocation together with the Federal House of Representatives on August 23, 2006 to revisit the 1992 Revenue Allocation Formula the nation has been using to share revenue among the tiers of government. Before then the polity is yet to have a constitutionally backed sharing indices for the Federal (FG), States and Local Government Councils (LGCs) (Ali & Ahmed, 2019).

Mallam Nasir El Rufai was at the National Assembly to present the Federal government's perspectives on the proposal. There are already some levels of misconception arising from arguments at the inauguration. For instance while the Chairman of RMAFC restated the need for Special Funds to address the need of the constituent units under the custody of Federal Government for joint administration by stakeholders, there have been misinterpretations on this aspect in some sections of the media. The Minister of FCT too made a very strong representation on behalf of FG where he said it is needless the argument for the creation of 'parallel bodies on fiscal issue.' This was in reference to calls for the separation of Office of the Accountant General of Federation from that of the Accountant General of the Federal Government for impartiality in administering funds in the federation account. He pointed out that it is a crazy idea the attempts to make distinction between Federation from Federal Government (Akujuobi, & Kalu, 2009).

This argument may not likely go down well with keen watchers of Nigeria's political economy. There is no doubt that the President of Federal Republic of Nigeria is not only presiding over the affairs of federal government as a tier, but also of the federation which include other tiers. The Constitution however clearly stipulates items in its Concurrent and Exclusive Lists which limit the level of interference of federal government in the affairs of other tiers. For instance while the constitution does not assign roles for the Ministers and Commissioners, the appointed public officers have their powers delegated to them by their respective heads of governments.

Similarly one may cite the attempt by El-Rufai's FCT to establish its own Revenue Board against the existence of Federal Inland Revenue Service; and his preference for FCT to be treated as if it were a state as against governors' resistance to that in the present proposed revenue formula. While some of the arguments may be logical, there is a need for independent institutions like constitutional bodies to be neutral in the politics of the tiers (Akujuobi & Kalu, 2009).

Before the National Assembly could debate on that proposal, there was a Supreme Court verdict in April 2002 on the Resources Control Suit which nullified provision of Special Funds in any given Revenue Allocation formula. With that new development, the formula in operation then (from 1992), had to give way as President Olusegun Obasanjo invoked an Executive Order in May 2002 to redistribute the formula to reflect the verdict.

That Executive order, which is acceptable by law, gave FG 56%, States 24% and LGCs 20%. But when there was an outcry from other tiers against that distribution, the President reviewed the Executive Order in July 2002 with some adjustments by fraction where the FG had 54.68%, States 24.72% and LGCs 20.60%.

In March 2004, the then Minister of Finance, Dr. Okonjo Iweala issued a letter modifying the second Executive Order that increases state allocation to 26.72% and reduces FG to 52.68%. That ministerial circular on the modification has since been the indices for the monthly distributions from the Federation Account. Between those periods the

RMAFC resubmitted another proposal on Revenue Formula where it proposed: FG 46.63%, States 33% and LGCs 20.37%. But for very mysterious reason there was an allegation of circulation of fake bills in the National Assembly.

This singular allegation influenced the withdrawal of the formula until September 2004 that another proposal from RMAFC was submitted to the President. That proposal now with National Assembly recommends for FG 53.69%, States 31.10% and LGCs 15.21%. But in the actual fact there is 6.5% built into the allocation of FG to cater for Special Funds thereby leaving the FG with 47.19% as its rightful due. The spirit behind lumping the funds into FG's, is to guard against the repeat of constitutional errors which the Supreme Court voided in its ruling of April 2002. The 6.5% would be applied as follows: Ecological Fund1.50%, Solid Mineral Fund 1.75%, National Reserve Fund 1.50% and Agricultural Development Fund 1.75%.

From the above historical perspective, one can observe the needless delay, politicking and controversies that trailed this constitutional requirement for statutory allocation from Federation Account to tiers of government. The area that has been greatly misconstrued lately is the alleged adjustment of vertical allocation which does not affect the horizontal formula as it is being insinuated. The horizontal allocation indices are for sharing amongst states and LGCs which include such proxies as Equality, Population, Internal Revenue, Landmass, Rural Road, Inland Water Way, Education, Health and potable water. The vertical allocation to federal, states and local government councils is not changed. Though new problems may arise from the ongoing debate and consultations amongst the stakeholders seeking for upward review, it is better the formula is passed now than delay for another lengthy time.

Unfortunately, the deal might hit a brick wall, as governors in various states of the federation are threatening to back out of the new minimum wage agreement, unless the federal government reviews the existing federal revenue allocation formula. Under the sharing formula, the federal government allocates to itself 52.68 percent of the federal revenue, while a state gets 26.68 percent. The 774 local governments are left with 20.50 percent, while the oil producing states get 13 percent as derivation fund (Usman, 2011).

The revenue sharing formula has always been in favour of the Federal government, compared with its expenditure requirements. Moreover, the persistent refusal of the state governments to honour their own obligation as regards the expected allocation of 10 percent of their internally-generated revenue to the councils constitutes a new challenge for macroeconomic governance in Nigeria.

Also, experience has shown that revenue allocation presents the most intractable problem in Nigeria's fiscal federalism. There is no generally acceptable formula for both vertical and horizontal distribution of revenue. The issue is that the federal government takes the lion's share of centrally collected revenue based on the current formula and other retained revenue, leaving state and local governments with small shares compared to their assigned functions. The table below shows the institutions responsible for revenue allocation in Nigeria.

Table 3.3 Institutions for Revenue Allocation in Nigeria.

S/N	Institution	Role
1	Revenue Mobilization, Allocation and fixed Commission	Monitor revenue accruals into and disbursements from the federation account. It therefore determines the allocation indices
2	Central Bank of Nigeria	A custodian of the federation account
3	Federation Accounts Allocations Committee	It determined monthly disbursement from the federation account. It comprises of representative of the federal, 36 states government, RMAFC, OAGF and other revenue agencies etc.
4	State Joint Local Government Account	It determines monthly disbursement from the State Joint Local Government Account. It comprises of representatives of the State and local governments.

Source: Victor I. Lukpata (2013), Workshop paper.

3.3 Components of Revenue Allocation Formula in Nigeria

Fundamentally, there are two components of the revenue allocation formula used for the disbursement of the Federation Account and they are:

The Vertical Allocation Formula

This formula shows the percentage allocated to the three tiers of government i.e. federal, states and local governments. This formula is applied vertically to the total volume of disbursable revenue in the Federation Account at a particular point in time. The VAF allows every tier of government to know what is due to it; the Federal Government on one hand and the 36 States and 774 Local Governments on the other (Bashiru, 2011:3).

The Horizontal Allocation Formula

The formula is applicable to States and Local Governments only. It provides the basis for sharing of the volume of revenue already allocated embolic to the 36 States and 774 Local Governments. Through the application of the principles of horizontal allocation formula, the allocation due to each State or Local Government is determined. Thus, it can conveniently be concluded that the vertical allocation formula is for inter-tier sharing between the three tiers of government while the horizontal allocation formula is for intra tier sharing amongst the 36 States and the 774 Local Governments in Nigeria (Bashiru, 2011:3)

Conclusion and Recommendations

Sub-national governments in Nigeria can be justified for three reasons;

(a) This current democratic system would perform optimally if the constituencies are charged with the responsibility to initiate their favoured developmental projects in line with the cultural values and human capacity index. The assumption here-in is that a sub-national government such as local government will be better in perceiving the desires and demands of its constituents for public services than a centralized government too far away in Abuja. The implication of a loose federation cannot be relegated; implying the full implementation of core values of federalism.

(b) Due to the unitary system which has been foisted on Nigerian people by the ruling class at the expense of the constitutional provision of fiscal federalism as the basis of 1914 amalgamation, the state and local government tiers, have been rendered ineffective or too weak to generate resources needed to establish infrastructures and human capacity development.

(c) This paper equally arrived at the assumption that the public sector of the Nigerian economy has been hijacked through nepotistic considerations since independence, accounting for the non-diversification of the economy, restricting the government's earning to a particular source, invariably, causing the impediments of industrial transformation agenda.

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