Journal of Advertising and Public Relations
Volume 2, Issue 1, 2019, PP 53-63
ISSN 2639-1953

Intergovernmental Fiscal Relations and Revenue Allocation in Nigeria: The Politics of Sharing the National Cake

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ABSTRACT

One of the most contentious challenges facing the Nigerian federal experiment today is that of revenue allocation. Right from the colonial era till present, finding an acceptable revenue formula has remained intractable as the various attempts have not gained wide acceptance.This paper chronicles the various revenue commissions in Nigeria and the formulae derived there from. Data for the paper were mainly from secondary sources. The theoretical nerve of the paper is based on the nature of intergovernmental fiscal relations. The findings indicate that the derivation principle has been the main bone of contention since the discovery of oil in Nigeria. Based on this, the paper recommends a serious restructuring of the Nigerian federation to grant the various component units enough autonomy to develop at their own pace, while economic viability should be the main basis for creation of states and local governments. These states and local governments should also be encouraged to develop other revenue sources outside oil, and finally the issue of revenue allocation should be made open for all Nigerians to contribute in the true spirit of democracy.

Keywords: *Federalism, intergovernmental Relations, intergovernmental fiscal Relations, Derivation Principle, and Revenue Allocation.*

It is clear the oil-state nexus is at the heart of the dialectics of revenue allocation in Nigeria. What follows is to locate the contradictions spawned by oil within the processes of fiscal federalism. The major contradictions are; federal government versus the other tiers, federal government versus the states, federal government versus the oil producing states, oil producing states versus the non-oil producing states, federal government versus the oil minorities and oil minorities versus the oil multi-nationals. As such, these oil-related battle lines are both locational and situational being influenced by their position in oil based accumulation, the distribution of spoils, extent of control of territorial space, and the position within a historically determined structure of domination, resistance and access.

INTRODUCTION

Federalism entails the simultaneous existence of at least two levels of government in a state. Since these levels of government serve essentially the same people, there is usually the need to have some structures, procedures and processes for handling their joint affairs. These are referred to as intergovernmental relations. Though intergovernmental relations exist in virtually all governmental systems, it is more pronounced in federal systems. In fact, some scholars tend to believe that federalism is synonymous with intergovernmental relations. It is this thinking that informs the saying by Reagan (1972), that "federalism old style is dead. Yet, federalism new-style is alive and well and living in the US. Its name is intergovernmental relations" (p.3). Perhaps, the perception by Anderson who is seen as the originator of the concept of intergovernmental relations, that it exists only in federal systems may have influenced this line of thinking. However, practical experience and evidence have disproved this, as there are traces of intergovernmental relations in unitary states. This is because unitary states also have subordinate governments that are created by the central government that assist them, hence, some structures and procedures that help to coordinate their joint endeavours. These structures and procedures are intergovernmental relations.

In this paper, we are going to look at federalism and the politics of revenue allocation in Nigeria In doing this, the paper is divided into six sections including the introduction. The second section briefly discusses the theory of federalism, and the concept of inter-governmental relations. The third is a theoretical exposition on the nature of intergovernmental fiscal relations, while the fourth is on revenue allocation in Nigeria. The fifth looks at oil and the derivation principle, while the sixth and final section serves as the conclusion.

FEDERALISM

Federalism is a system of government that emphasizes a constitutional division of governmental powers between levels of government in such a way that each level enjoys some significant measure of independence within its sphere of jurisdiction. Heywood (2002), believes that "federal systems are based upon a compromise between unity and regional diversity, between the need for an effective central power and the need for checks or constrains on that power (p.161). More elaborately, he offers a deeper explanation of federalism thus:

> Federalism (from the Latin *foedus,* meaning 'pact', or 'covenant') usually referred to legal and political structures that distribute power territorially within a state. Nevertheless, in accordance with its original meaning, it has been taken to imply reciprocity or mutuality (Proudhon), or in the writings of Alexander Hamilton and James Madison (see p.320), to be a broader ideology of pluralism. As a political form, however, federalism requires the existence of two distinct levels of government, neither of which is legally or politically subordinate to the other. Its central feature is therefore the notion of shared sovereignty. On the basis of this definition, classical federations are few in number: the USA, Switzerland, Belgium, Canada and Australia. However, many more states have federal-type features (p.161).

It would be necessary to state here that the first notable attempt to build a theory of federalism started with the seminal work of Kenneth C. Wheare titled 'Federal Government'. This pioneering work elicited a lot of scholarly interest to the extent that it almost divided theorists on federalism into two camps in terms of those for and against Wheare.

In the book, Wheare defined federalism as "a method of dividing powers so that general and regional governments are each, within a sphere, coordinate and independent"(p.10). This definition was criticized by some scholars for being too legalistic. Others criticized it for being more or less an explanation of American federalism which they felt Wheare was depicting as the idea form of federalism of . Carl Friedrich introduced another dimension to the understanding of federalism. According to him, "federalism is a process rather than a design…….Any particular design or pattern of competencies or jurisdictions is merely a phase, a short-run view of a continually evolving political reality" (p.1). Drawing the argument further, he asserts that "if thus understood as a process of federalizing it will become apparent that federalism may be operating in both the direction of integration and differentiation" (p.2).

Thus Friedrich has introduced the process view into explaining the federal concept. This attempt is useful, because according to Jinadu (1979), it "makes it possible for an understanding of recent developments in federal government which, were one to operate under Wheare's formulation, would otherwise be difficult to comprehend"(p.18).

Another scholar who made an important contribution to the study of federalism is William S. Livingston. Incidentally, his contribution was also in reaction to Wheare's postulation. To him:

> Federalism is not an absolute but a relative term; there is no specific point at which a society ceases to be unified and becomes diversified. The differences are of degree rather than of kind. All countries fall somewhere in a spectrum which runs from… a theoretically wholly integrated society at one extreme, to a theoretically wholly diversified at the other (p.25).

To emphasize his aversion to Wheare's 'juridical' approach to federalism, he argues that:

> The essential nature of federalism is to be sought for, not in the shading of legal and constitutional terminology, but in the

> forces-economic, social, political, cultural-that have made the outward forms of federalism necessary……The essence of federalism lies not in the institutional or constitutional structure but in the society itself. Federal government is a device by which the federal qualities of the society are articulated and protected"(pp.1-2).

From the above, it is clear that Livingston has introduced a sociological angle to the conceptualization of federalism. This is because he distinguishes between a federal constitution which is a legal document drawn up by the component units in a federation and a federal society which is a pre-disposing factor towards the formation of federations. Thus, it the existence of diversities of culture, language, religion etc among people within a particular geographical area that make them want to form a federation in order to still maintain unity in diversity.

There is perhaps no doubt that each of these perspectives contributes somewhat to our understanding of federalism because just as Dare (1979) argues "each approach is a narrow perspective of the broad theme and none by itself explains the totality of the federal concept or its dynamics"(p.34).

INTERGOVERNMENTAL RELATIONS

Intergovernmental relations according to Denhandt and Denhardt (2009), "is often used to encompass all complex interdependent relationships involving those at various levels of government as they seek to develop and implement government programmes." (p.84). It is still further defined as an array of structures, processes, institutions and mechanisms for coping with the inevitable overlap and interdependence that is a feature of modern life"(p.127). Finally, Obi and Nwankwo (2014), posit that:

> There is no doubt that intergovernmental relations clearly involves mechanisms devised in a state to handle areas of joint competencies and also harmonize the activities of the different levels in a way to make for a smooth relationship and build the necessary synergy in government operations (p.1).

THEORETICAL EXPOSITION- THE NATURE OF INTERGOVERNMENTAL FISCAL TRANSFERS

In virtually all federal systems, there is usually some form of 'resources sharing' among the levels of government. Many reasons have been adduced for this, but there are three main reasonswhich seem to be widespread. The first has to do with the nature of the functions and revenue sources of the three levels of government. The functions and revenues of these three levels of government are determined either traditionally, constitutionally or from the administrative point of view, and an imbalance may develop between revenues and responsibilities. It then becomes the duty of the higher level of government to make good such an imbalance by making transfer of financial resources to lower levels of government. These type of transfers are referred to as deficiency transfers or balancing (Olalokun 1979).

Secondly, there are variations in the capacity of the different levels of government to raise revenue. The lower levels may not have enough capacity to raise enough revenue to take care of their minimum needs. When it is realized that in a federation, it is desirable for every state or locality to attain a certain minimum level of services, it then becomes clear that for these areas that have low revenue-raising capacity to meet up with the national minimum, they may have to impose heavier taxes on inhabitants of such areas, thereby making them poorer. The need to prevent this heavier tax burden makes it necessary that the higher level of government should transfer resources to them. This type of transfers is known as equalization transfers.

The third type of transfer which is known as 'stimulation' 'incentive' or 'promotional' transfers are ones which are made to states or localities for specific purposes. In other words, the recipient authorities are told what particular projects or programmes that they should spend the resources on. While the first two types are known as unconditional grants, the third is known as conditional grants.

James Buchanan, in a paper titled "Federalism and Fiscal Equity' published in the American Economic Review in 1950, made the first noted attempt at rationalizing the adoption of grants in fiscal federalism. In that paper, Buchanan argued that under fiscal federalism an individual is subject to the influence of the fiscal operations of three different levels of government. Based on this, the old view of

horizontal equity in the context of fiscal federalism, which states that citizens in similar circumstances should be given the same fiscal treatment, is not enough. A more meaningful approach in his view is the one that takes account of the overall fiscal pressure on an individual. This pressure is measured in terms of what he calls 'fiscal residuum' and which he defines as "the balance between the contributions made and the value of the public services returned to the individual. Buchanan believes that based on the state of income distribution, the "fiscal residuum" should be negative for low income individuals and positive for high-income individuals. For the achievement of horizontal equity between two individuals, the necessary and sufficient condition is that their fiscal residua be equal. This means that two individuals in similar circumstances received the same fiscal treatment if their fiscal 'residua are equal (Olalokun 1979).

Buchanan's worry was that in maintaining horizontal equity, citizens in a relatively poor locality would be taxed higher, for the level of public services provided in their locality to be at par with that of the relatively rich localities. He sees such a situation as being undesirable and also a violation of the principles of fiscal equity and that of efficient resource allocation. Consequently, Buchanan suggested that the best way to handle this situation was a system of resource transfers. His suggestion was in favour of the unequal treatment of equals by the central government. This means citizens in a rich loyalty should be taxed more heavily than those in a poor locality. He believes that this system of a "geographically discriminatory central income taxation" is the best means of achieving horizontal equity. However, in recognition of the constitutional barriers against this system in the United States, Buchanan offered a second best option of intergovernmental fiscal adjustment in the form of unconditional equalization grants (Olalokun 1979).

The clear possibility of Buchanan's model running into difficulties in actual practice has led to its critical examination by public finance experts. The result has been its modification. Thus Graham (1963), has questioned his use of the term 'Fiscal Residuum'. Graham believes, Buchanan's use of the term, was a result of his attempt to take full account of both sides of the fiscal balance sheet (taxes paid and services returned) in arriving at a more meaningful definition of horizontal equity. But, because the level of services is one of the determinants of individual welfare, what has to be satisfied is the equality of what he called "overall fiscal treatment" of two similarly situated individuals rather than just the equality of their residua. To Graham, overall fiscal treatment implies that both the level of services, as well as the burden of taxes should also be taken into account in determining the satisfaction of horizontal equity norms. In other words, fiscal equity demands that individuals in all jurisdictions across the country enjoy the same good level of services for the same tax burdens (Olalokun 1979, p.113).

As we have pointed out earlier, fiscal transfers from higher to lower levels of government in federations come under two broad categories, conditional and unconditional grants. There are considerable debates and arguments about which of the two is better. So many reasons have been adduced to justify the use of conditional grants. Olalokun (1979:185.186), has outlined them:

Firstly, the federal government through the use of conditional grants tries to maintain a minimum national standard throughout the federation.

Secondly, federal grants-in-aid help to introduce the much needed flexibility into the operation of the constitutional system. This point is justified on the grounds that conditional grants are a means of pragmatically realigning financial power to constitutional responsibilities once and for all. Bearing in mind that the tax field of the federal government usually has greater growth generating capacity than those of the state governments, Federal fiscal transfers is said to be a good device for adjusting the inelastic state revenues to their continually expanding responsibilities.

Thirdly, it is a means of correcting fiscal imbalance among the state governments. Since the various states have differing capacities in their economic resources, it follows that, the tax burden may vary from state to state, with residents of poorer states paying higher taxes if their states must meet up with the national minimum standard. The intervention of the federal government through conditional grants preventsthis from happening.

Fourthly, it is a device for redistributing wealth in the name of balance and even national development. There is no doubt that extreme

polarization of wealth or development along geographical lines is dangerous to the survival of any federation, Hence, it behooves the federal government to allocate resources in such a way that it helps backward areas grow out of their backwardness, though this may not be in the interest of optimization of resources.

Fifthly, it helps to compensate for the adverse effect of national policies on some states. Since some federal policies do affect some states adversely, natural justice demands that such states should be compensated for whatever losses or negative effects of such policies on them. Conditional grants perform such duties.

Sixthly, it could be given to encourage uniformity in specific state legislation and public policy across the land, especially in areas where the federal government has noconstitutional responsibility.

Finally, conditional grants are made to take care of disasters and emergencies in states. On the reverse side of it, Conditional grants are known to have a distorting effect on the programmes or policies of state governments. This becomes more pronounced when the grant requires a matching grant. The money that would be used by the state to match the federal grant, may be money already earmarked for something else.

Conditional grants also have the effect of strengthening the federal government vis-a-vis the states. Since he who pays the piper dictates the tune, conditional grants may make the states subservient to the federal government and financial subordination doesnot make for a good federation.

Also, there is the argument that the federal government can use these grants to favour some states or sections of the country to the detriment of others. There have been loud allegations of such in Nigeria. While conditional grants, stipulate uses or areas where the recipient would spend the money; unconditional grants leave it open. The recipient has more discretion in determining the uses to which it will utilize the grants on. In terms of the utility of unconditional grants, Olalokun (1979), argues that, "it has been conclusively demonstrated that the objective of the maximization of state or local welfare can better be achieved by the use of unconditional grants"(p.111).

Revenue Allocation in Nigeria

The above statement by vividly captures the underlying reasons behind the acrimony and struggle over revenue allocation in Nigeria. We now turn to the various fiscal commissions that have been set up in Nigeria.

The introduction of the Richards constitution in 1946, necessitated for the first time in the history of Nigeria, a revenue allocation commission. The reason for this was because it was that constitution that introduced regionalism into the country. The initiator of that constitution, Sir Arthur Richards later explained that it was meant to create “a unitary state with local government centers in the Regions”. More explicitly the constitution was meant to achieve three main objectives: the promotion of unity in Nigeria; the adequate provision within that unity for the diverse elements which make up the country and securing of greater participation of natives in the determination of their affairs. In a letter to the Secretary of State for Colonies, Sir Richards said the Constitution was meant:

> To create a political system which is itself a present advance and contains the living possibility of further orderly advance---------- system within which the diverse elements may progress at varying speeds, amicably and smoothly towards a more closely integrated economic, social and political unity without sacrificing the principles and ideas in their divergent ways of life (cited in Coleman 1966).

Consequent upon the new regional political structure, Sir Sidney Phillipson was appointed to “Study comprehensively and make recommendations regarding the problems of the administrative and financial procedure to be adopted under the new constitution”(cited in Obikeze, Obi &Iwuoha 2017). The principles of derivation and even development was adopted by the Phillipson Commission for revenue allocation. It should be noted that derivation had more weight than any other consideration.

In 1951, another revenue commission was appointed to review the existing formula in anticipation of the MacPherson Constitution. The report of John Hicks and Sidney Phillipson known as Hick-Phillipson Commission added new criteria to the allocation formula; independent revenues for the regions, need and national interest. For the first time, regional governments were given the power of

independent revenue and tax jurisdiction. They were empowered to impose specific taxes. In summary, the Hick-Philipson Commission de-emphasized the principle of derivation in favour of need and national interest. Thus proportions of specified duties and taxes were allocated to regions by derivation, while special .grants were made to them inrespect of capitation (that is per head), education, police and equalisation (Osisioma, 1996, p.67).

The Sir Louis Chick Commission was appointed in 1953 to review the revenue formula in anticipation of the Lyttleton Constitution that will come into operation in 1954. The Commission was set up with a mandate to fashion out a formula that will:

> Take care of...the need to provide the regions and the centre an adequate measure of fiscal autonomy within their own sphere of government and that the total revenue available to Nigeria are allocated in such a way that the principle of Derivation is followed to the fullest degree compatible with meeting the reasonable needs of the centre and each of the Regions. (Cited in Obikeze, Obi & Iwuoha 2017).

Consequently the 1954 Constitution emphasized greater regional autonomy and derivation as the main criteria on which revenue was distributed between the centre and the Regions. Derivation now covered all federal revenues allocated to the Regions, while 100 percent of revenues from import duty on motor spirits, federal income tax royalties and rents from mining, 50 percent of revenue from duties on all other imports as well as 50 percent of all export duties were all distributed according to the principle of derivation. Estimates of each regions consumption of dutiable imports and goods on which excise taxes were paid were used to weight its share of revenue allocated by the federal Government (Olalokun 1979).

On the 10th of October 1957, another fiscal commission was appointed on the recommendation of the Nigerian constitutional conference held earlier in the year in London. The Two-man Commission had Sir Jeremy Raisman as Chairman and Professor R.C Tress as member. The Commission was charged with the task of correcting the deficiencies of the existing formula and to in particular look at:

- The limited range of independent revenues at the disposal of the regions;
- The weakness in the application of the principle of derivation on which so much stress had been laid in the past; and
- The absence so far of any provision whereby a region could be treated for revenue allocation purposes from the point of view of needs rather than on the basis of the amount of revenues generated within its boundaries.

The Raisman and Tress Commission tried to play down on the derivation formula. A Distributable Pool Account (DPA), was set up for other taxes which were not regional or federal. This was made up of 30 percent of mining royalties and rents and 30 percent of general import revenue to be allocated to the regional governments in this order: North 40 percent, West 24 percent, East 31 percent and Southern Cameroons 5 percent. The recommendations of Raisman and Tress formed the core of Nigeria's revenue allocation system till the late 1960's. The major significance of that Commission remains its creation of the Distribution Pool Account (DPA) as a counter-balance to derivation thus defining to a large extent, the poles of conflict around which the struggles over revenue were to take place after independence (Obi, C. 2000, cited in Obi 2004,p.91)

The last revenue commission headed by a non-Nigerian was Binn's Commission appointed in 1964 but whose report was published in 1965. The Commission's recommendation was that the DPA should be increased from 30 to 35 percent of revenue from import duties, mining rents and royalties. It also recommended the principle of financial comparability (comprising the overall cash position of each regional government, the extent of its own effort to relieve its financial needs, and the standard of services provided by the regions) (Anyanwu,1993) .

The Binn's Commission's recommendation was still the basis of revenue allocation when the military struck early in 1966. However, the promulgation of Decree No. 15 of May 1967, which divided the country into twelve states from the hitherto four Regions had some implications for revenue allocation. Following the crisis situation in Nigeria then, the federal Government could not appoint another commission to review the formula to reflect the

new structure. What was done was simply to sub-divide each regions revenue among the new states in the Region. While the Northern states shared theirs on the basis of equality, the East and West shared theirs on the basis of population. The arbitrary nature of this allocation formula was sharply criticized. This led the Federal Military Government to inaugurate in July 1968, the Interim Revenue Allocation Review Committee (IRARC) headed by Chief I. O. Dina.

The Dina Committee was charged to "look into and suggest any change in the existing system of revenue sources" (Adesina, 2000). The Committee submitted its report in February 1969. Its major concern was trying to fashion out a formula that will take care of the problem of uneven development which it identified as one of the major problems confronting the Nigerian federation. Thus, it recommended that 90 percent of mining rents and royalties should be paid into the Distributable Pool Account which it renamed States Joint Account (SJA), for distribution to the various states, while 10 percent goes to the states of origin. In sharing the States Joint Account,, the major considerations should be need, minimum responsibility of states, derivation and balanced development. The Dina Committee report was never implemented, instead the federal Military Government promulgated Decree No, 13 of 1970 which took retrospective effect from Ist April 1969. According to this Decree, revenue sharing was based on 50 percent population, and equality of states 50 percent. The state's share of revenue from export duties, motor spirit and excise duties was reduced from 100 percent to 60 percent, and 50 percent respectively. The federal government's share of mining rents was also increased from 15 to 20 percent. Later Decree No.9 of 1971, gave 100 percent of off-shore mining rents and royalties to the federal government. Decree No.15 of 1972, further amended the sharing formula, thus, giving the federal government 100% of all taxes paid by Armed Forces Personnel, External Affairs officers and Pensioners Overseas.

Under Decree No.6 of 1975, all revenue from import duties on motor spirits, tobacco, mining rents and royalties on off shore production were paid into the DPA. 20 percent of on-shore receipts go to the state of production, while the remaining 80 percentgoes to the DPA.

In preparation for the return to civil rule, the military government set up the Aboyade Technical Committee on Revenue Allocation in 1977. The Committees' recommendations for sharing national revenue were:

Equality of Access to Development Opportunities (25 percent);

National Minimum Standards For National Integration (22 percent),

Absorptive Capacity (20 percent);

Independent Revenue effort (18 percent); and

Fiscal Efficiency (15 percent).

According to it, the fixed proportional share of the federation Account among the federal, state and local governments are; Federal Government 57 percent, States 30 percent, Local Governments, 10 percent and 3 percent to oil producing states and ecological problems. The Committee's report was however rejected because it translated the principles it had recommended into statistical and mathematical calculations that would require a huge volume of accurate statistical details to back them up. The report was heavily criticized because of its obvious over dependence on statistics, so it was considered too unrealistic to last for more than a few years (Adesina, 2000)

Since the military did not leave any acceptable revenue formula following the rejection of the Aboyade report, President Shagari on assumption of office in 1979 inaugurated the Okigbo Revenue Allocation Commission. The Commission submitted its report in 1980; it recommended the sharing of revenue as follows; Federal government 53%, States 30%, Local Governments 10%, and Special Funds 7% to cater for mineral producing areas and ecological funds.lt further recommended that funds among states and local governments should be shared using the following principles:

Minimum Responsibility or equality - 40%

Population - 40%

Social Development 11.25%

Direct 3,75%

Inverse -15%

Internal Revenue effort -5%

The federal government accepted the report with minor amendments as follows: Federal Government 55%, States 30%, Local

Governments 8% and Special Funds 7%. The National Assembly, further amended the Bill before passing it into law in 1981. The Okigbo Commissions report was highly criticized. According to Adesina (2000):

> The aspect of the Commissions report which drew the ire of people were the proportion of federally collected revenue that was assigned to the federal government; the inclusion of the Federal Capital Territory in the vertical sharing scheme; federal governments control of the special funds and the proportion of the special funds earmarked for mineral producing areas; and on the relative share of the federal government from the federation vis-a-vis the other layers of government (cited in Obi 2004, p.93).

As if in line with public opinion the Supreme Court declared the Allocation Act of 1981 null and void after it was challenged in court by the then Bendel State Government. Following the voiding of the Revenue Act, the federal government modified it and it was passed into law in January 1982. The new Act had the following formula:

Federal Government 55%; States 35%; and Local Governments 10%.

30.5% of the states share was shared on the following basis;

Minimum Responsibility = 40%

Population = 40%

Social Development =15%

Internal Revenue effort = 5%

The remaining 4,5% was shared thus;

Federal fund for Ecological problems = 1%

Allocation to mineral producing areas based on derivation =2%

Federal Fund for development of mineral producing areas =15%

The military government that sacked the Shagari government enacted the Allocation of Revenue Amendment Decree Number 36 of 1984 which made some slight amendments to the 1981 Act. For instance it increased the proportion of the Federation account that was to be shared among the states from 30.5% to 32.5%

The Babangida government in 1988 set up the National Revenue Allocation and Fiscal Commission,with General T.Y Danjuma (Rtd), as Chairman. In 1989, the Armed Forces Ruling Council (AFRC) considered the report of the Commission and adopted the following formula:

Federal government	=50%
States	=30%,
Local government,	=15%
Special funds	= 5%

The principle used to share states fund was;

Equality of states	:	40 percent
Population	:	30 percent
Land mass	:	10 percent
Social Development	:	10 percent
Internal Revenue effort:		10 percent

That formula lasted till 1992 when it was slightly adjusted thus;

Federal government	= 48.5 percent,
States	= 24 percent,
Local government	= 20 percent,
Special funds	= 7.5%.

It was the above formula that the Obasanjo administration inherited in 1999. However the 1999 Constitution empowers the President in section 162(2) to;

> Upon the receipt of advice, from the Revenue Mobilization Allocation and Fiscal Commission, shall table before the National Assembly proposal for revenue allocation from the Federation Account, and in determining the formula, the National Assembly shall take into account, the population & equality of states, internal revenue generation , land mass, terrain as well as population density, provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than thirteen percent of the revenue accruing to the Federation Account directly from any natural resources.

In consonance with this constitutional provision (section 32(b) of the third schedule) President Obasanjo set up the Revenue Mobilization Allocation and Fiscal Commission (RMAFC), with Engr. Hamman A. Tukur as Chairman with members drawn from all the states of the federation. The Commission as statutorily

empowered, were mandated to draw up a new revenue allocation formula for the country.

The Commission after about two years of serious work presented a new revenue allocation proposal to the President on August 16 2001. According to the proposal, the federal government will get 41.3 percent, the states 31 percent and the local governments, 16 percent, Special Funds 11.7 percent. The Special Funds will be shared as follows; Federal Capital Development Fund 1.2 percent, Ecological Fund 1.0 percent, National Reserve Fund 1percent, Agriculture and Solid Mineral Fund and its associated Science and Technology Research 1.5 percent, Basic Education and skill Acquisition (BESA),Fund 7 percent.

Almost immediately the report was presented, there were loud cries of foul by state Governors and Local Government Chairmen. Southern Governors at the end of their fourth meeting in Ibadan, strongly criticized the new revenue proposal. They advocated a uniform 36 percent for both the federal and state governments; 25 percent for local governments, 1 percent for the Federal Capital Territory and 2 percent for Ecology.

The Obasanjo government after meeting with the Governors to iron out some contentious issues following the Supreme Court ruling of 5th April 2002 in the much celebrated On-shore / offshore dichotomy issue, the Commission had to withdraw the recommendations since some portions of it were affected by the judgment. The report was subsequently re-submitted to the 5th National Assembly after some amendments in December 2002 by President Obasanjo. Unfortunately the National Assembly could not finish deliberations on the report before the end of President Obasanjo's tenure in 2007, which also marked the end of the 5th National Assembly.

At the beginning of the 6th National Assembly, the Commission was informed that all bills that were not passed by the 5th National Assembly have elapsed and would have to be re-submitted. The RMAFC had to prepare another revenue allocation formula which was ready by December 2013 for presentation to President Goodluck Jonathan. However, though the President was communicated of the Commissions' intention, for some inexplicable reasons, the Commission could not get audience with him until the end of his tenure in 2015. Incidentally the present government has also not done much on it till date. Perhaps, the reason behind the federal government's reluctance to push for passage of the revenue allocation Bill is that the present formula which gives it more than fifty percent of the revenue from the federation account is in its favour.

As at today the following formula is in use:

Federal Government: 52.68 %

State Government: 26.72 %

Local Government: 20.60 %

The state share is based on the following principles:

Equality = 40%

Population = 30%

Landmass/Terrain = 10%

Internally Generated revenue Effort = 10%

Social Development Effort = 10%

Oil, Derivation Principle and Revenue Allocation in Nigeria

The oil boom of the 1970's, which suddenly placed oil as the major foreign exchange earner in Nigeria led to the abandonment of the derivation principle as a basis for revenue allocation in the country (Obi, 2000). Decree No 13 of 1970 changed the formula and made population and equality of states the major consideration in revenue allocation. Later Decree No 9 of 1971 gave 100 percent of off-shore mining rents and royalties to the federal government.

However, the final blow on derivation came via the budget broadcast of Yakubu Gowon, the then Head of State when he said:

> As from 1st April 1975 all portions of Customs and Excise duties formerly payable to the state governments on the basis of derivation would be payable to the Distributable Pool Account (DPA), the percentage of royalties payable to state governments on the basis of derivation would be reduced from 45 to 20 percent and the federal government will surrender it's entire, share of both on--shore and off-shore royalties into the Distributable Pool Account (cited by Nwokoh and Edemodu, 2002).

This sudden de-emphasis on the derivation principle was explained by Keith Panter-Brick in the book 'Soldiers and Oil' that:

> Once the revenue from oil became dominant, the principle of derivation had obviously to be abandoned, so as to avoid a blatant disparity in the revenues of the oil producing states (Rivers and Midwest) and those of the rest the country (Panter-Brick 1978.)

In the same book,Oyobaire argued that the "four most important factors making for change in the system of revenue allocation" in Nigeria are:

> The removal of open competitive politics by military rule; the multiplication and reduction in size of the component parts of the federation, the emergence of a national consciousness on the part of the country's rulers and the overwhelming importance of the oil industry as a source of revenue(Oyobaire, 1978).

Some other analysts believe that the main reason why the derivation principle was jettisoned was simply because none of the three main tribes has oil deposits in large quantities. Thus, Nwokoh and Edemodu(2002), argue that "as oil became the mainstream of the economy and given it's absence in any significant quantity in any three dominant ethnic groups, the power elite of the three tribes consigned the principle of derivation to history books". Based on this reasoning, it can be argued that if oil were discovered in the territories of the major ethnic groups, the allocation formula would have been heavily skewed in favour of derivation. Also even if today the resource is discovered in very large quantities in the North, definitely the present formula would change.

In trying to make sure that the federal government and not the states control oil resources in Nigeria, section 42(3) of the 1979 Constitution stated that the:

> Entire, property in and control of all minerals, mineral oils and natural gas in, under or upon any land in Nigeria or in, under or upon the territorial waters and the exclusive zone of Nigeria shall vest in the government of the federation and shall be managed in such manner as may be prescribed by the National Assembly

Incidentally, the 1999 Constitution which is a reviewed version of the 1979 Constitution equally vested the control of all natural resources in the federal government through section 44(3).

CONCLUSION

The study has traced the history of revenue allocation in Nigeria from inception till date..We would at this point ask the question what is to be done? Solving the revenue allocation problem we dare say will not be a very easy one. The reason for this being that, the issue is one that arose out of the inherent contradictions and imperfections of the Nigerian state. It is basically a reflection of the consequences of over-centralisation of power and the denial of access to certain groups based on a pre-determined criteria.

To solve this problem in a very meaningful way therefore, will mean a restructuring of the federation to the extent that the concentration of power at the centre will be changed so that the constituent units will have more autonomy to manage their own affairs and move at their own pace. In a restructured Nigeria economic viability should be the main basis of creation of states and local governments. They should also be encouraged to develop other revenue sources outside oil. Also the present situation where a few privileged individuals determine what they think should be the revenue allocation formula should be completely jettisoned. This is because, like Adesina (2000) said, Revenue allocation formula are warped because they have not been open covenants openly arrived at "Rather they reflect the views of Commissions, individuals, or groups within the Commissions which have not only proved unrealistic, but have thereby contributed to the dislocations within the Nigerian state.(cited in Obi 2004, p.107). We need a democratic system where Nigerians would contribute to this all important issue, since the elites who have been presiding over the matter since the pre-independence era have failed to find a lasting solution to the unending acrimony over revenue allocation.

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Citation: *Obi, Emeka Anthony, "Intergovernmental Fiscal Relations and Revenue Allocation in Nigeria: The Politics of Sharing the National Cake", Journal of Advertising and Public Relations, 2(1), 2019, pp. 53-63.*