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AN EXAMINATION OF THE NIGERIAN FISCAL FEDERALISM AND ITS IMPACT ON REVENUE GENERATION FOR ECONOMIC DEVELOPMENT

Okolie Onyeisi Romanus
Department of Accounting, Ambrose Alli University, Ekpoma, Nigeria
Okoyeisi@yahoo.com

Ochei C. Monday
Department of Economics, Ambrose Alli University, Ekpoma, Nigeria
mczforever@yahoo.com

Abstract

The concept of the Nigerian fiscal federalism has elicited a lot academic discourse in the recent past. This is because the economic development of the country is tied to the way and manner of revenue generation and management. This paper, therefore examines the Nigerian fiscal structure and the challenges facing the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) in determining an acceptable revenue sharing formula. It also inquired into the revenue generation efforts of the three tiers of government and how the application of true fiscal federalism will boost the Internally Generated Revenue (IGR) which will lead to rapid economic growth and development. This article is based on descriptive survey and it also employs secondary method of data collection. Findings revealed near total dependence on the revenue from federation account among the three tiers of government and total abandonment of internal revenue generation efforts. The neglect of IGR efforts have been seen to be responsible for the slow economic growth in the country.

Keywords: Revenue, Fiscal Federalism, Federation Account, Derivation Principle, Resource Control

INTRODUCTION

In a federal structure, adequate authority is given to each level of government to enable it perform its responsibilities without interference. In such cases there is the division of power between the central, states and local governments. Federalism as being practiced in developed countries such as the United States of America, will enhance unified, peaceful, political and socio-economic development. Federalism therefore, implies the existence in one country of more than one levels of government each with different expenditure responsibilities and taxing powers, it is essentially about government structure (Nwosu, 2010; Anam-Ndu, 2007). One of the most discussed issues in Nigeria is the fiscal federalism, this is because it has generated so many problems capable of threatening the corporate existence and continuity of the Nigerian state. The problems emanating from proper application of true federalism include total neglect of areas where mineral resources are exploited; criticism on the mode of determining equitable and acceptable revenue sharing formula; neglect of tax bases of various states and local government and the agitation for resource control. These factors have accounted for lack of rapid economic development of the country. This paper therefore inquired into the causes of dissatisfaction and violent agitation arising from fiscal federalism and the revenue allocation issues. In achieving this, the paper adopted the descriptive method of data analysis by relying on secondary sources for data gathering.

THE CONCEPT OF FISCAL FEDERALISM

According to Elaigwu (2007), in most federal countries, one of the most constant sources of squabbles among the tiers of government has to do with securing adequate financial resources on the part of lower levels of government to discharge their political and constitutional responsibilities. According to Sagay (2006), federalism is an arrangement whereby powers within a multi-national country are shared between a federal government and component units in such a way that each unit, including the central authority exists as a government separately and independently from others. The unit operates directly on persons and properties within its territorial area and with a will of its apparatus for the conduct of affairs and with an authority in some matters exclusive of others. Fiscal federalism on the other hand is concerned with the division of public sector function and finance among different tiers of government (Ozo – Eson, 2005). In undertaking this division, economics emphasizes the need to focus on the necessity for improving the performance of the public sector and the provision of their services by ensuring a proper alignment of responsibilities and fiscal instrument (Akindele, 2002). Perhaps the most important issue in the fiscal federalism is revenue allocation formula, which involves the sharing of national revenue among the various tiers of government and the distribution of revenue among the states and local governments. In fact, fiscal federalism is the framework for the assignment of functions and appropriate fiscal instruments to the different levels of government for carrying out these functions (Mbanefo and Egwakhide, 2009). However, Akpan (2011) sees fiscal federalism as a set of guiding principles and guiding concepts that help in designing financial relations between the national and sub-national levels of government. It is apparent that each unit of government within a federation exists, not as an appendage of another government, but as an autonomous entity capable of conducting its own will free from directive by any other government. Fiscal federalism refers to the realisation of tax raising powers and expenditure responsibilities between levels of governments (Orji and Jaja, 2007). Fiscal federalism concerns the division of public sector functions and finances among different tiers of government.

According to Aluko (2004) the objectives of fiscal relations among units in a federation include the following; to ensure correspondence between sub-national expenditure responsibilities and their financial resources (including transfers from central government) so that functions assigned to sub-national government can be effectively carried out; to increase the autonomy of sub-national government by incorporating incentives for them to mobilize revenue of their own; to ensure that the macro-economic management policies of central government are not undermined or compromised; to give expenditure discretion to sub-national government in appropriate areas in order to increase the efficiency of public spending and improve the accountability of sub-national official to their constituents in the provision of sub-national services; to incorporate intergovernmental transfers that are administratively simple, transparent and based on objectives, stable non-negotiated criteria; to provide equalization payment to offset the differences in fiscal capacity among states and among local governments to ensure that they can offer sufficient amount of key public services; to incorporate mechanism to support public infrastructural development and its appropriate financing and to be consistent with nationally agreed income distribution goals.

Fiscal Federalism in Nigeria

In any federal system, there must be an arrangement on how the revenue of the state will be shared among the component parts. The politics of revenue allocation and resource control have been a ding-dung affair for a very long time in Nigeria. The importance of fiscal federalism in Nigeria can be seen in the number of various commissions and committees that has been set up to handle revenue matters since the colonial days, as the politics of oil revenue has really made Nigeria a polarized state. In fact, with the discovery of oil, Nigeria drifted from agro base nation to oil base nation, most agro products like ground nut, cotton, palm produce, cocoa and rubber were neglected (Okeke, 2010). The basic point has remained that in all these, fiscal arrangement that can guarantee peaceful coexistence has remained a controversial one thus resulting to the demand for resource control by the oil rich states in the country (Ekpo, 2009).The controversy inherent in Nigeria's fiscal federalism, according to Eboh and Igbokwe (2006) dates back to the origin of Nigeria hence one of the main reasons for the amalgamation of Northern and Southern Nigeria in 1914 by the colonial government was to enable the colonial government reduce its subsidy on the colony of Northern Nigeria by using up the surpluses from southern Nigeria.

However, the history of fiscal federalism in Nigeria became glaring from 1940s, such that from 1948 to date, nine commissions, six military Decrees, one Act of Parliament and two supreme court judgments have been resorted to in defining and modifying fiscal interrelationships among the component parts of the federation, Egwaikhide (2008). The federal government has always been accused of taken the "lion's share" of the vertical allocation on itself and delegating more constitutional functions to the states. The 1981 Act which was signed into law and subsequently used in allocating revenues in 1982 gave 55% to the federal government and leaving the state and local government with 35% and 10% respectively (Emenuga, 2007). Political observers believe that the lion's share of the national revenue given to the federal government runs against the gains of the current global trend in federalism. Under this arrangements, state governments cannot be regarded as coordinate units with the central government, and against this background, there is a widespread clamour for the return to "true federalism" thwarted in 1967 with the creation of twelve (12) states (Ifesinachi, 2007; Emeh, 2010). In addition, this high percentage of federal government's share of the revenue, is not only the main source of injustice but also the major cause of corruption, marginalization, instability and reckless agitation for restructuring in the country, Obi (2009). The high concentration of federal wealth on the federal government has culminated into the elimination of the only true principle of federal fiscal operation-principle of derivation, because it takes much away from the people from whose land, these resources are derived from (Nwosu, 2010).

Nyemutu (1999) observed that the factors that guide the operation of fiscal federalism include the following; Independence responsibility:- the respective tiers of government should not only be autonomous in their resources but such resources should be enough to carry out their autonomous functions; Adequacy and Elasticity:- the principle of adequacy means that the resources of the government should be adequate so that each government can discharge its obligation. Elasticity implies the expansion of resources in response to rapidly growing needs and responsibilities of the government concerned; Accountability:- every level of government should be accountable to their respective legislature for the use of resources generated within the unit; Uniformity:- the financial system should be such that every government in the system should provide adequate level of public service without resort to higher rates of taxation than other states and Fiscal Access:- every state should have the authority to develop their sources of revenue within their own ambit.

Vertical Allocation Formula (VAF)

This formula shows the percentage of revenue that is allocated to the three tiers of government, ie federal, states and local governments. This formula is applied vertically to the total volume of disbursable revenue in the federation account at the end of each month (Bashir, 2008). Revenue sharing among the component units of Nigeria federation has from its inception, been fraught with agitations, controversies and sometimes outright rejections due to the nature of politics that is involved with the determination of what is acceptable to all the tiers. Some of the concepts used are difficult to determine objectively, for instance, the principle of interest defies any particular interpretation, and it is also difficult to measure the principle of even development (Ifesinachi, 2007). The sharing formula from the federation account is one of the contentious and sensitive issues in the Nigerian polity this has remained a central element of inter-fiscal relations. This issue is so important that in some other countries it has become a national question (Michael, 2005; Emenuga, 2007).

The feud over fiscal relations is as a result of low level of political maturity and the inability of the Nigerian nation to allow its federalism to evolve and develop without undue control. To this end, Osisoma (1990) noted that revenue allocation issue is a primary issue that is fundamental to the political stability of the country as a whole. Various commissions have been set up to work out acceptable and equitable revenue allocation formula for the country, they include the following; The Phillipson Commission (1946); the Chicks–Phillipson Commission (1951); the Chicks Commission (1953); the Raisman Commission (1958); the Binns Commission (1964); the Dina Interim Revenue Allocation Committee (1968); the Aboyade Technical Committee (1977); the Okigbo Presidential Commission (1979) and the Danjuma Fiscal Commission (1988) (Akindele, 2002). A noticeable feature in all the revenue allocation systems adopted on percentage basis shows that the federal government has been mostly favoured, in other words, the proportion of federally allocated revenue to the federal government is enormous (see table 1).

Table 1. Statutory Revenue Allocation Formula (%), 1960 – 1999

	1960	1963-1967	1980	1982	1987	1990	1993	1995- 99
Federal Govt	70.0	65.0	55.0	55..0	51.0	50.0	48.5	48.5
State Govt	30.0	35.0	32.0	34.5	32.5	30.0	24.0	24.0
Local Govt			10.0	10.0	10.0	15.0	20.0	20.0
Special funds			1.5	0.5	2.0	0.5	7.5	7.5
FCT			1.5	--	1.0	1.0		--
Derivation			--	--	1.0	1.0		--
Development of mineral producing areas			--	--	1.0	1.5		
General Ecology			--	--	1.0	1.0		
Statutory Stabilisation			--	--	0.5	0.5		
Total	100	100	100	100	100	100	100	100

Source: Adapted from Adesina (2010)

Table 1 shows the allocation of revenue to the three tiers of government over the years. It no doubt, shows that the greater part of revenue was allocated to the federal government to the detriment of other tiers, perhaps this is what is responsible for the inability of both the states and local governments to effectively develop their areas. It can be seen from that a greater proportion of the allocation goes to the federal government. State governors have argued that as a result of the huge resources at the disposal of the federal government, that there is high level of corruption. Federal government has on the other hand argued that it has the power to execute programmes on the exclusive list and that enough resources are needed to do it. The three tiers of government should arrive at a truce on the sharing formula that is not only acceptable to all, but that will encourage even development among them.

Note: The 7.5% special fund between 1993-1999 was allocated as follows; Federal Capital Territory (FCT) 1%, derivation 1%, development of mineral producing areas 3%, general ecology 1% and statutory stabilization 1.5%.

Value Added Tax (VAT)

VAT was introduced in Nigeria in 1993 as federal government's efforts to redefine their sales tax and make it more functional so as to increase their revenue. The initial policy regarding the distribution was that federal government should retain 20% through Federal Inland Revenue Service (FIRS) as administration cost charges and state government and Federal Capital Territory (FCT) to share the balance 80%. However, when the implementation of VAT became very successful, the sharing formula was changed to; federal government 50%, state government 25% and local government 25% (Emeh, 2010). Due to protest and agitations from state and local government, the formula was again altered in April 1995, and since then there have been series of changes (see table 2).

Table 2 Value Added Tax (VAT) Allocation 1994 - 2012

Year	FIRS	Fed Govt	State Govt	Local Govt
1994	20		80	
1995 (Jan-March)		50	25	25
1995 (April-Dec)		40	35	25
1996 – 1997		35	40	25
1998		25	45	30
1999		15	50	35
2000 - 2012		15	50	35

Source: CBN Statistical Bulletin (2012)

Table 2 also shows that the federal government had higher at the inception of the VAT scheme to the detriment of the other two tiers of government. However this has been reversed so that other tiers can conveniently developed.

Each level of government only agitates for reviewed of the formula so that more money can be allocated to it. All the thirty-six state government severally and jointly condemned the percentage allocation to the federal government and of the proposed 50% and 30% of the statutory allocation to federal and state government respectively (Ojo, 2010). The general opinion in the country is that the federal government control larger amount of resources to the detriment of the sub units of government. The structure of revenue allocation have not steered any sense of financial responsibility on the part of the state and local government as they have become inefficient in the use of the meager funds that are allocated to them.

The Horizontal Allocation Formula (HAF)

This formula is applicable to the states and local governments only. It provides the basis for the sharing of the amount allocated to the 36 states and the 774 local government councils. The amount allocated to a state or local government is determined through the application of the ratio assigned in combination with the prevailing principles (see table 3). The following principles were in use at one time or the other; basic needs, derivation, even development, equality of access to development opportunities, independent revenue efforts, fiscal efficiency, population, social development factor, equality of states, land mass and terrain and internal revenue generation efforts (Ugoh, Ukpere and Ashiwhobel 2012).

Table 3. Horizontal Revenue Allocation Formula, 1970 - 2004

Principles	1970 – 1980	Revised 1981 Act	1990-1995	2000 Proposals of RMAFC	2001 Proposals Revenue Allocation Committee	2002 Current formula	Proposals Sept 2004
Equality of states	50	40	40	40	30	40	45.23
Population	50	40	30	30	40	30	25.6
Population density	0	0	0	0	10	0	1.45
Internal revenue generation effort	0	5	10	20	10	10	8.31
Land mass	0	0	10	0	10	10	5.35
Terrain							5.35
Social development factor	0	15	10	10	0	10	8.71
Total	100	100	100	100	100	100	100

Source: Adapted from Ojo (2010)

Table 3 shows the changes in allocation ratios between 1970 to 2004, with the relevant principles applicable during the period under consideration. It is the responsibility of the (RMAFC) to ensure that current realities in the economy are reflected in such changes to enhance rapid and even development of the states and local councils.

The Concept of Revenue Generation

Tax raising power is usually assigned to the level of government that will administer it efficiently at minimum cost. It is also important that each level of government should be able to raise adequate resources to meet its needs and responsibilities. Nigeria is a federal state having 36 states, 774 local government councils and the Federal Capital Territory (FCT) as its federating units. Naturally, these federating units are unequally endowed in terms of natural resources, for instance some states are blessed with crude oil which has constituted the mainstay of the national economy while others are blessed with other resources. In analyzing the approximate net allocation to the thirty six states between May 29 1999 to November 2003 in Nigeria, over two trillion naira have been allocated to the states [see tables 4(a) – 4(c)]. It is however pertinent to note that the increment in allocation to states has not provided the needed impetus that will usher in development and growth at the state level. The revenue increment over the years has further created an avenue for most of the state governors to loot the state treasury (Emeh, 2010).

Table 4(a) Federal Government Revenue Sources (2000 - 2013) in N' Billion

	Federal Govt. Revenue				Percentage of Revenue Source		
Year	Fed. Account	VAT	IGR	Total	Fed. Account	VAT	IGR
2000	521.6	7.8	38.6	568.0	91.8	1.5	6.7
2001	530.7	11.4	44.4	586.5	90.0	2.5	7.5
2002	859.0	12.6	68.1	939.7	91.4	1.4	7.2
2003	917.1	18.6	54.2	989.9	92.6	2.0	5.4
2004	1125.9	25.1	58.9	1209.9	93.0	2.2	4.8
2005	1234.7	26.2	82.3	1342.2	92.0	1.4	6.6
2006	1859.0	32.9	156.2	2048.1	90.7	1.7	7.6
2007	1500.8	44.0	268.0	1812.8	82.7	2.6	14.7
2008	2339.2	58.9	204.3	2602.4	89.8	2.4	7.8
2009	1923.2	68.2	248.1	2239.5	85.8	3.2	11.0
2010	2456.6	82.0	197.4	2723.0	89.7	3.1	7.2
2011	2792.5	96.0	182.5	3071.0	90.9	3.2	5.9
2012	3915.0	103.4	229.6	4248.0	92.1	2.5	5.4
2013	4434.5	115.9	328.2	4878.6	90.8	2.5	6.7

Source: Adapted from Olaloku, (2012) and CBN Statistical Bulletin (2012)

Table 4(b) State Government Revenue Sources (2000 - 2013) in N' Billion

	State Govt. Revenue				Percentage of Revenue Source		
Year	Fed. Account	VAT	IGR	Total	Fed. Account	VAT	IGR
2000	359.1	30.6	51.2	440.9	81.4	7.0	11.6
2001	404.1	44.9	59.4	508.4	79.4	9.0	11.6
2002	388.3	52.6	89.6	530.5	73.1	10.1	16.8
2003	535.2	65.9	118.8	719.9	74.3	9.2	16.5
2004	777.2	96.2	134.2	1007.6	77.1	9.6	13.3
2005	921.0	87.4	122.7	1131.1	81.4	7.8	10.8
2006	1016.4	110.6	125.2	1252.2	81.1	9.0	9.9
2007	1169.3	144.4	305.7	1619.4	72.2	9.0	18.8
2008	1709.2	198.1	441.1	2348.4	72.7	8.6	18.7
2009	1342.8	229.3	461.2	2033.3	66.0	11.4	22.6
2010	1674.8	275.6	757.9	2708.3	61.8	10.3	27.9
2011	1886.3	318.0	509.3	2713.6	69.5	11.8	18.7
2012	2842.6	347.7	548.1	3738.4	76.0	9.4	14.6
2013	3210.3	389.5	585.9	4185.7	76.6	9.5	13.9

Source: Adapted from Olaloku, (2012) and CBN Statistical Bulletin (2012)

Table 4(c) Local Government Revenue Sources (2000 - 2013) in N' Billion

	Local Govt. Revenue				Percentage of Revenue Source		
Year	Fed. Account	VAT	IGR	Total	Fed. Account	VAT	IGR
2000	118.6	13.9	5.8	138.3	85.7	10.1	4.2
2001	128.5	20.1	6.6	155.2	82.7	13.1	4.2
2002	128.9	18.7	10.4	158.0	81.5	12.0	6.5
2003	291.4	39.6	20.2	351.2	82.9	11.4	5.7
2004	375.7	46.0	22.4	444.1	84.5	10.5	5.0
2005	493.0	55.8	24.0	572.8	86.0	9.8	4.2
2006	550.8	75.9	23.2	649.9	84.7	11.8	3.5
2007	568.3	105.1	21.3	694.7	81.8	15.2	3.0
2008	722.3	135.9	23.1	881.3	81.9	15.5	2.6
2009	621.3	157.3	26.0	804.6	77.2	19.5	3.2
2010	732.9	189.1	26.1	948.1	77.3	20.0	2.7
2011	940.0	218.2	31.6	1189.8	79.0	18.4	2.6
2012	1082.4	238.5	26.6	1347.5	80.3	17.8	1.9
2013	1245.9	267.3	29.3	1542.5	80.7	17.5	1.8

Source: Adapted from Olaloku, (2012) and CBN Statistical Bulletin (2012)

Tables 4(a) – 4(c) shows that the allocation of revenue has been in favour of the federal government over the years, the implication of this is that other tiers are handicapped in their ability to develop their areas as little resources are left at their disposal. It was also argued that there is high rate of corruption at the federal level due to huge financial resources at its disposal. What is so glaring from the tables above is the high level of dependence on the revenue from the federation account by the three tiers of government. For instance, between the years under consideration, the ratio of federal government's revenue from the federation account was between 86 – 93%, that of state was between 70 – 81% while the local government dependence was between 77 – 85%. The implication of this is that, since over 90% federation account revenue is from oil, fluctuations in the price of oil in the global market will have a devastating effect on the Nigerian economy.

This simply exposes the weakness of Nigeria's federation in which the states and local tiers of government lack the necessary initiative to mobilize resources internally, thereby failing in their responsibilities to the people. The attitudes of the state government of recent have been to develop strategies on how best to utilize the revenue for the up-liftment of the lots of the people (Okeke, 2010; Akinyele (2005). At the same time, most states and local governments cannot show meaningful outcomes or positive impact on the standard of living of persons within their jurisdictions based on the billions of naira received monthly from the centre (Olaloku, 2012). According to Danjuma (2012) not all collected revenues are paid into the federation account for distribution among the tiers of government, as large amounts of federally allocated revenue are diverted into extra constitutional items like dedication or reserve accounts. For instance out of the federally collected revenue of N452b in 1997, only N208b was paid into the federation account. In 1998, out of the N424b that was collected, only N198b was made available for sharing among the three tiers of government.

PRINCIPLE OF DERIVATION

Those states from where the crude oil is found have always asserted a claim that in a true federation, each of the federating units should have adequate control of its resources. Consequently, the federal government thought of an arrangement which could then be reached that would enable the whole federation to benefit from the resources but not at the expense of those producing it, this is where the principle of derivation comes in (Obi, 2007). The concept of revenue derivation, according to Nwokedi (2006) is the most common concept advocated and generally applied in the history of revenue allocation in the Nigerian federation. No principle has evoked more rivalry and bitterness than this principle since the creation of regions in 1951. This principle of derivation seeks to give back a certain percentage of revenue to a state where mineral is found and exploited, while the rest will be enjoyed by all the federating units. Ofuebe (2005) is of the view that this principle implies that the state from where the bulk of the revenue is derived is entitled to get an extra share beyond what every other states received. Agiobenebo (2010) opined that the principle of derivation requires that all revenues which accrue from or are attributable to a particular state should be allocated in part or in full to such a state, irrespective of the fiscal jurisdiction involved or the machinery for the allocation. Its main attraction is that it ensures that a state of origin of any particular revenue would receive more than any other state from the revenue accruing from within its geographical boundary or area of jurisdiction (Elaigwu, 2007).

Some south-south leaders have advocated an increase of the derivation ratio to 50 per cent from the present 13 per cent. This position has also been given a boost in the National Conference where the majority of the delegates were in support of such increase. Nwokedi (2005) opined that at the time of amalgamation of the two regions, the principle of derivation was in vogue as each of the regions collected revenue of its internal resources mainly from agricultural or export cash crops, taxable import and excise duties. Adesina (2008) pointed out that the principle of derivation has always been applied in various revenue allocation formula with the regional governments (later states) receiving the proceeds and utilizing it for the development of the regions or states (see table 5).

Table 5. Derivation Formula 1960 – 2010

Years	Producing State (%)	Federal Govt (%)	Distributable Pool (%)
1960 – 1967	50	20	30
1967 – 1969	50		50
1979 – 1971	45		55
1971 – 1975	45 minus off shore proceeds		55 plus off-shore proceeds
1975 – 79	20 minus off-shore proceeds		80 plus off-shore proceeds
1979 – 81			100
1982 – 92	1½		98½
1992 – 99	3		97
1999	13		87

Source: Adapted from Emeh (2010)

From table 5 above, the initial derivation formula at independence in 1960 was 50%, this has drastically reduced since then to the current 13%. This has stultified the development process of the various states where mineral is exploited, as there is total neglect of these areas even by the mineral exploiting companies. The ratio of revenue is so little that the revenue is not enough for the development of such areas.

Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC)

The 1999 Constitution provides for the establishment of the Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC) with the following functions; to monitor the accruals into and disbursement of revenue from the federation accounts, to review from time to time the revenue allocation formula and principles in operation and to ensure conformity with changing realities. In addition, it is to advise the federal, state and local governments on fiscal efficiency and methods by which their revenue is to be increased, to determine the remuneration appropriate to political office holders and to discharge such other functions as may be conferred on the commission through the Constitution or any Act of National Assembly (Orji and Jaja, 2007). The Commission is appointed by the federal government and the National Assembly have continued to formulate revenue allocation formula which maintained fiscal centralism without much consideration for the derivation principle. In 2001, the commission made a draft proposal with the sharing formula, the federal government got 41.3%, state governments got 31%, local governments had 16% and special fund 11.7%. However this particular proposal could not be used due to Supreme Court pronouncement on resource control in April 2002 (Dike and Iwuamadi, 2005). The Commission has not been able to perform effectively due to lack of will power to ensure that its recommendations are implemented to the latter. For instance, its recommendations in 2000 were jettison by former president Olusegun Obasanjo, in its place, executive order was used to give the federal government current ratio of 54.68%, state government 26.72% and local government 20.6% (Ugoh, 2012).

Resource Control

The unfaithfulness in the application of the principle of derivation and the meagerness of the 13 percent derivation ratio, recommended by the 1999 Constitution and the apparent subjugation and sidelining of the derivation principle, led the mineral producing states particularly the oil producing ones to clamour and demand for "Resource Control". According to Okeke (2010) resource control connotes the access of communities and state government to natural resources located within their boundaries and the freedom to develop and utilize these resources without interference from the federal government. Adebayo (2004) captured the concept of resource control as the principle where every federating unit must be empowered to be self-governing. It is the business of the rest country to help them exercise their right without let or hindrance. Therefore resource control amounts to an expression of self-determination by the units and it places a collaborative duty on other parts of the country to assist the units realize this objective (Eboh and Igbokwe, 2006).

Obi (2009) and Emeh (2010) posited that the questions of resource control and genuine federalism are treated with levity and that the percentage of compensation to the zone for redressing lingering injustices is being insulted. This is why Orji and Jaja (2007) undertook a thorough research in order to understand the underpinnings of the issue of derivation principle and resource control in which they averred that the resource control question has taken a centre stage in the economy of the nation. This according to them is responsible for the various ethnic crises and is capable of tearing the country apart. Unfortunately, federal government spending in the states has been criticized to be lopsided in favour of some states and zones of the federation. In performing the functions assigned in the lengthy exclusive list, it seems that the areas where most of the revenue comes from received less attention over the years.

FISCAL FEDERALISM AND ECONOMIC GROWTH

In non-federal states, there has been a growing movement towards greater fiscal decentralization in recent years. Some analysts have attributed this to globalization and deepening democratization the world over on the one hand and the need for faster economic development on the other (Anam-Ndu, 2007; Emeh, 2010). Other reasons include; the difficulty with federal government in meeting all the competing needs of their various constituencies and are attempting to build local capacities by delegating responsibilities downwards to the local governments; federal government is looking up to local and state governments to assist it with national economic development strategies; state and local political leaders are demanding more autonomy and want the taxation powers that go along with their expenditure responsibility (Ozo-Eson, 2005).In the view of Adesopo and Asaju (2012) the assignment of functions among federating units should be organized in the following ways; functions which can be more efficiently performed by the federal government than lower levels of government such as defence, maintenance of law and order, currency issues, should be assigned to the central government, while functions whose benefits are more local than national should be assigned to both the state and local governments. Ifesinachi (2007) is of the view that there cannot be a virile and dynamic development among the tiers of government without ensuring that functions assigned to them are properly aligned with their revenue generating powers.

There are other viable options that have been neglected and underdeveloped as a result of concentrating so much attention on the oil revenue. It should be noted that besides natural resources, human resources, technology, capital accumulation, breaking of new grounds through research, are ways of enhancing economic growth. Nations are turning to human capital development to improve the performance of their public sectors. In line with most growth theories, natural resources, human resources, capital enterprises and technology are all important for rapidly economic growth. Expenditure on human resources development via spending on education and research, provision of infrastructural facilities, health care, housing and urban development, environment quality, securities and administration of justice are made possible or better financed thorough the revenue gotten from the nation's resources. Since these variables lead to economic growth and development, Ojo (2010) therefore posits that an efficient revenue allocation is of a great importance in the equation of growth.

It is often said that economic growth is possible even when an economy is deficient in natural resources if efforts are made to develop its human capital and technology. As pointed out by Nyemutu (2009); Orji and Jaja, (2007) a country which is often considered to be poor in resources today may be considered very rich in resources at some later time not merely because mineral resources are found there, but because of development in human resources and technology. Japan is one of such countries which is deficient in natural resources but it is one of the advanced countries of the world because it has been able to discover new uses for limited resources. Moreover by importing certain raw materials and minerals from other countries, it has successfully overcome the deficiency of its natural resources through superior technology, new researches and higher knowledge (Sagay, 2006; Onuoha and Nwanegbo, 2007). Fiscal decentralization ought to bring about development, but in Nigeria it has increased poverty and misery. Most states and local governments embark upon projects that have no bearing on the lives of the people as this has reinforced their wealth accumulation process.

FINDINGS

Nigeria has everything to develop, but official policies are not administered in a way to intensify economic growth and development. The spatial difference in the distribution of revenue endowments implies that various levels of government have capacity to develop and grow at different pace due to resource gaps. But unfortunately, in the view of Akpan (2011) these resources are not and for some economic reasons, cannot be exploited at the same time and rate to guarantee equity in development and the reduction in inter regional inequality, tension and crises. One of the most crucial challenges to the Nigeria's fiscal federalism is the inability of states to raise, retain and manage revenue generated within their units. While a lot has been written about intergovernmental fiscal relations and the need for improved allocation to states and local governments from the federation account, not much attention has been paid to the management of available resource base through improving their internally generated revenues (Emenuga, 2007; Dike and Iwuamadi, 2005).

Fiscal laws in Nigeria tend to give more powers to the federal government than the other sub-federal units combined. In fact, there is an increase dependence of the sub-federal units on the federal government particularly for their finance. State and local governments are neither given any strong fiscal incentive nor encouraged to generate internal revenue (Danjuma, 2012). In view of this, they are weak financially and the financial base of states cannot strengthen or guarantee true federalism. As a result, there is conflict and agitation by the two other tiers against the federal government for self-reliance. The increase in the number of states has tended to reduce the states to a level where they have virtually ceased to function as autonomous and cognate unit in a true federalism as most of them were not viable abinitio. The principal effect of overbearing lop-sidedness of the revenue sharing system in Nigeria is the continued strengthening of the position of the federal government against the continued weakening of the positions of the sub-federal levels (Akinyele, 2005; Onuoha and Nwanegbo, 2007).

Several attempts were made towards achieving a harmonious and equitable sharing formula of its economic resources among the components units of the federation. Despite all these efforts, there are still inherent challenges that are posing serious problems to the Nigerian federalism. Such issues include over dependence on oil revenue, conflicts over revenue sharing formula, centralizing tendency of fiscal relations in Nigeria, the agitation for resource control, among others (Akpan, 2011; Nwokedi, 2005). State and local governments have been faced with plethora of challenges, resulting from proper application of true fiscal federalism. These combined with other institutional and structural problems have rendered them functionally impotent in the areas of revenue generation and rapid economic development. It should be noted that between 2002 – 2012, Nigeria earned over 250 billion dollars in oil revenue, however, this has led to the undermining the development of the once buoyant agricultural sector and other viable areas such as industry, mining and human capital development. This has impacted negatively on the competitive spirit that would have stimulated economic growth in these neglected sectors over the years (Ugoh, et al, 2012; Olaloku, 2012).

The oil producing areas have been subjected to abject neglect, the area has remained the most underdeveloped, lacking in modern infrastructure such as roads, education, medical facilities, electricity, etc. the traditional economic activities of the region such as fishing and farming have been ravaged by pollution and environmental degradation associated with oil exploration, the region has the highest rate of unemployment (Obi, 2009).

RECOMMENDATIONS

Having had vigorous and meticulous review of the Nigerian fiscal federalism with emphasis on revenue generation and economic development, we now make the following recommendations; There should be restoration of the principle of derivation as it is the impetus for a proper allocation of oil revenue in a federal system like Nigeria and that there should be an upward review of the derivation principle. Efforts should be made to review any Act or Decree which concentrates too much power in the hands of the national government and contributes to the unequal distribution of derivation revenue to ensure faithful application of a fair and new derivation principle formula that will engender peaceful and harmonious co-existence in the country. Nigeria is a resource rich nation and there are potentials for developing more sustainable sources of non-mineral revenues. There is also a need for increased transparency and better co-ordination of policies by the bodies responsible for allocating and performing these roles. There is need for close interaction between government and the private sector to jointly develop industries that will form the base for internally generated revenue. Nigeria should take a cue from countries like Japan that have developed without mineral resources. In the 21st century, development in any form is not a function of deposits in mineral resources, but rather on of human capital development which will in turn determine the rate of technological development in such countries (Agiobenebo, 2010).

As long as Nigeria has decided to live together, the issue of revenue sharing and the appropriate formula especially as it relates to derivation must be completely overhauled. We need to draw experience from other federations like India, United States of America, Canada and South Africa on how to arrive at a formula that is just, fair and equitable. It would be useful to examine the variables used by these countries while taking into account of our peculiarities.

Fiscal equalization is in the form of lump sum transferred from the central government to either the state or local government. The major arguments for equalization is a way of correcting distorted migration patterns due to movement to regions perceived to be richer in resources and also to provide assistance to poorer regions to encourage even development. Equalization has been important in a number of federations, for instance, Canada has an elaborate equalization scheme built into her inter government fiscal arrangement (Asobie, 1998). There should be realignment in the revenue sharing formula to reflect equity, justice and fair play among the tiers of government. There is need to diversify the Nigerian economy from oil to other viable sectors such as agriculture, manufacturing, mining and human development. The orientation to depend on the oil revenue need to be changed. The various tiers of government should be encouraged to look inwards. Nigeria has been blessed to the extent that there is no state without one or more mineral resources, therefore, there is need to develop and fashion out technologies to tap them (Ofiong, 1997; Nwokedi, 2006). The current revenue sharing formula encourages laziness in internal revenue generation efforts. States have become dearth in initiatives, lacking vision and bereft of developmental ideas. It is recommended that the principle of derivation be adopted as it is capable of spurring the states to work harder in developing and designing internally generated revenue mechanism capable of creating wealth and reduce reliance on federation account. The joint account between the states and local governments should be scrapped. It has been discovered that most state governors use the joint as a control tool of the activities of the local governments. The RMAFC should work out ways and means of boosting the nation's revenue profile rather than concentrating on efforts to determining an acceptable sharing formula. The debate on revenue allocation should be geared towards meeting the nation's economic needs rather than focus on geopolitical and ethnocentric considerations. The 13% derivation allocated to the mineral producing areas should be reviewed upwards to 30% to cushion the negative effects of mineral exploration and exploitation which is associated with considerable measures of economic and environmental degradation on the communities.

CONCLUSION

The issue of revenue allocation must be re-examined if there is to be sustainable development in Nigeria. The formula for allocating revenue in the country must be such that recognizes the importance of even development of the nation. The people are interested in the development achievable with revenue. As such, the political leadership of the regions should be more committed and patriotic and stop diverting the resources of the region into private pockets, this is the only way that the nation can witness rapid economic developments. It is instructive to state that the whole purpose of having federal standards, procedures and regulations which guide the disbursement and use of federation revenue by public office holders is to ensure that such money is prudently spent on specific matters and projects for which they have been budgeted. However it has been the pattern of the Nigerian public office holders to spend public money with reckless abandon and without regards to the provisions of the law or what is budgeted. Nigeria is resources rich nation and she has the potential and capacity for developing more states through sustainable sources of non-mineral revenues but the clamour for oil wealth has left other viable options significantly underdeveloped. Finally, all efforts aimed at achieving generally acceptable revenue sharing formula among the three tiers of government should be guided by national interest which should super cede individual or primordial interests.

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