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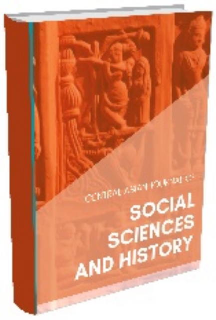

Fiscal Federalism and Political Stability in Nigeria, 1999-2007

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Abstract:
The study evaluates fiscal federalism under Obasanjo and ascertains how its operations have affected the political stability of the country. This is done to suggest modalities for fiscal independence for tire federating units. Therefore, in setting out for this, content analysis was used because of the nature of the study. More so, the researcher observed the imbalances in the revenue (sharing/tax allocation functions) jurisdiction between the centre and the constituent units (states), the emergence of the military in government and its command nature; the tendency towards a unitary system of government shaped present-day operations of fiscal federalism. It is on this premise that the paper posited that the current fiscal arrangement, which is characterised by the weak fiscal capacity of both the state and local governments, be changed, and the derivation principle is pursued vigorously for stability to flourish. The paper further recommends adjustment in revenue sharing formula, fiscal commission to work out a formal mechanism for fiscal equalization, the existence of mutual compromise to enable fairness, justice and relative equity and in all the diversification of Nigeria economy which will maintain a shift away from reliance on crude oil exports.

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I. Introduction

Fiscal 01 monetary federalism refers to the policy of economic justice and equity that guides the practice of a federal system of government. The federal system is a political arrangement that guarantees some measure of autonomy to the federating units. The power arrangement is firmly entrenched and guaranteed in the constitution of the Nigerian federation. The fiscal principle for distributing revenue was first applied in 1946 with the introduction of central planning by the British colonial administration. At independence, in 1960, the derivation principle provided "or at least 50%

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of revenue to be allocated to the region from which it was earned or derived. For most items of derivation, the central government got 20% derivation, and 30% was allocated to common pool for all regions and the central government to share. This was the situation until the military era in the late 1960s.

The incursion of the military into Nigerian politics, in 1966 destroyed the derivative principle because of its inclination to run a unitary form of government. The first crack on fiscal federalism was the promulgation of decree no. 51 (Petroleum Decree) of 1969. The law dispossessed all the regions or state governments of any share in revenue from oil which became the mainstay of the economy at the period under review. Over the years, the states have been mere economic appendages of the central government in fiscal operations.

In the bid to ensure that the fiscal responsibilities of the states are carried out, the federal government established agencies like Planning Commission at all levels of government to ensure the coordination of economic planning throughout Nigeria. Other institutions and agencies include the Central Bank, and joint account committee, and Fiscal Responsibility Council. All these were aimed at re-shaping the fiscal system of the country for better results.

In spite of these measures adopted by the Federal government in the provision of the acts, the derivation principle in the constitution has not been applied. There have been hues and cries from various states of the federation for equitable sharing formula. This single factor has led to the agitation by the Niger Delta region for resource control and its attendant perennial instability in that part of the country/ This has increased similar tension in other parts of Nigeria like the west, east and north, with the formation of some interest groups, agitating for one tiling or another. Such groups include the Odu'a Peoples Congress (OPC), the Movement for the actualization of the sovereign state of Biafra (MASOB) and the Arewa consultative forum (ACF). Their agitations are not far from the perceived high handedness of the central government in revenue matters.

Fiscal federalism in Nigeria involves the designation of functional responsibilities and revenue powers among the federal, state and local governments. The functional responsibilities of the tiers of the government are entrenched in the constitution and are classified as legislative powers. One can observe the lopsided nature of Nigeria's fiscal relations in that it has impoverished the federating units and so made them look like a lion chasing antelope and squeezing out life from it. The federal structure, as it is today, is a misnomer. This present structure has positioned itself as an octopus firmly gripping the federating units with' its poisonous clutch and constantly dictating its destiny. That is why Oats (1993), cited in Awa (2010), exposes that the state and local government expenditures have consistently surpassed the potential of their revenue sources. As such they have been agitations for revenue to meet their statutory responsibilities. This has culminated into butchering and tinkering of the sharing formula. In spite of all these, the problem remains unabated since there -.are continuous agitations for resource control, creation of more states, and local governments to ensure federal balancing for equitable revenue distribution. Therefore, this seminar, paper seeks to evaluate the operation of fiscal federalism under Obasanjo's administration, with a view to highlighting the problems created by the regime in its bid to bring sanity in fiscal interrelations of the states, and issues that have hampered the execution of the fiscal responsibilities.

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II. Literature Review

Fiscal-Federalism and Political Stability

Over the years, federalist researchers and practitioners have investigated the notion of intergovernmental fiscal relations in terms of revenue distribution and other fiscal policies. As such, this section makes an effort to discover, find, and assess prior research on the subject. Thus, this section of the tyre study discusses such sub-themes as an overview of fiscal federalism, the taxing powers of the three tiers of government, revenue sharing in Nigeria, fiscal federalism and political stability in Nigeria during the Obasanjo administration 1999–2007, and contentious issues in Nigeria fiscal federalism.

The concept of fiscal federalism is viewed as revenue generation and allocation in a federation. But this concept is embedded within the concept of federalism. Therefore, Wheare (1964), cited in Ibiam (2005), conceives federalism as a method of dividing powers so that the central and regional or state governments are within a sphere, and yet coordinate co-independent of one another. Federalism involves a division of function and since the states or units forming the Federation are conscious of the tact that they should not surrender, more powers than they know are essential for a federal government, that there be a written constitution embodying the division of powers binding all governmental authorities throughout the federation. In the same vein, Haque and Harrop (2001) identified the distinctive feature of federalism which hinges on legal sovereignty that is shared between the federal government and constituent states. They went further to argue that a federal constitution creates layers of government, with specific functions allocated to them. Therefore, according to Haque and Harrop (2001), the relations between the federal and state governments are the crux of federalism or the federal system.

According to Friedrich (1937), federalism is a union of “group selves” united by one or more common objectives, but retaining their distinctive group-being for other poses.-Federalism is at the intergroup level what association is at the inter-personal level. It unites without destroying the selves that are uniting and is meant to strengthen them in mutual relations.

Federalism, according to Ola (2001), is a system of governance where revenue generation and expenditure duties/function.is are divided among third-tier/levels of government. This division is done to enhance the provision of public goods and services to the citizens by the government it is on this premise on the division is carried out. It has been generally argued that revenue generation and spending responsibilities, intergovernmental fiscal transfers and the administrative aspects of fiscal decentralization are the real issues involved in intergovernmental fiscal relations or Fiscal federalism as it is usually known (Bello-Imam, 1990).

Fiscal federalism refers to the allocation of tax-raising powers and expenditure responsibilities between levels of government. However, Swell, et. al. (1994) cited in Guyer (1997) and Ggoli (2003), stated the following objectives of Fiscal relations among units in a federation:

1. To ensure correspondence between sub-national expenditures and responsibilities and their financial resources, which include transfer from the central government, so dial the functions assigned to all tiers, can effectively be executed.
2. To increase the autonomy of sub-national governments by incorporating incentives for them to generate revenue of their own.
3. To ensure that the macro-economic policies of the central government are not compromised or undermined.

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4. To give expenditure discretion to the sub-national government in appropriate areas to increase the efficiency of public spending and improve the accountability of sub-national officials to their constituencies in the provision of services.
5. To minimize administrative cost for all the tiers of government
6. To incorporate intergovernmental transfers dial are administratively simple, transparent, and that "is also based on objectives which are stable and non- negotiable.
7. To be consistent with nationally-agreed income distribution goals.
8. To support the emergence of a governmental function that is consistent and market-oriented.
9. To provide equity in payments to offset the differences in fiscal capacities among the tiers of government to ensure that poorer sub-national governments can offer a significant amount of public services.
10. To incorporate or institute a mechanism that will support public infrastructural development and its appropriate financing.

Specifically, the Nigerian fiscal federal structure involves the allocation of expenditure and tax-raising powers among the federal, state and local governments. According to Guyer (1997:6), "fiscal federalism is deeply rooted in an apolitical arrangement called federalism." As the financial relationship between and among existing tiers of government, fiscal federalism deals with the system of transfer of grants through which the federal government shares its revenue with the state and local governments.

Tax-raising powers among the three tiers of government

According to Piiiiip (1983), two major factors constitute the basis for tax-raising powers among tiers of government.

(a) Administrative efficiency

(b) Fiscal independence

The administrative criterion demands that the tire tax system should be assigned to the levels of government that will administer it efficiently at a minimum cost.

The fiscal independence factor requires that each level of government should, as far as possible, raise adequate resources from the revenue sources assigned to it to meet its needs and responsibilities.

These factors have been hi constant conflict in Nigeria because the fiscal independence did not increase tax-raising powers for the states and other lower governments to match the responsibilities/functions assigned to them, (Emeruwa, 1993). On the other hand, the administrative efficiency favours tire center, by concentrating more lux raising powers to the higher level of the government because it is presumed that the lower governments have limited administrative capacity.

Therefore, in the words of Andrew (1933), revenue rights are essentially the product of tire statutory arrangements relating to tire assignment of functions and allocation of tax powers.

Revenue sharing in Nigeria

The contradictions that emanate from the exercise of administrative efficiency and fiscal independence make it necessary to create statutory provisions for revenue ' sharing. These provisions make it possible to share the centrally collected revenues 011 the basis of given, principles among the different tiers of the government on vertical and horizontal lines, respectively (Akmdele, 2009). The

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responsibility of revenue sharing in Nigeria rests on Revenue Mobilization Fiscal Commission, which determines the criteria that should be employed.

In discharging its onerous responsibilities, the Commission assigns a percentage of, the revenue to each level of government from the central pool. In Nigeria, the pool is known as the Federation Account. However, one should note, that allocation of tax-raising powers often results in giving legal authority for certain taxes, while its collection could be entrusted to another level of government.

The allocation of functions among component units of the Nigerian federal system (i.e. federal, state and local government) is spelt out in section 4 Second Schedule of the 1999 Constitution of the Federal Republic of Nigeria. The section specifies three main categories of legislative functions: the Exclusive list, which contains 68 functions upon which only the federal government can legislate; the concurrent legislative, list, which consists of about eighty (80) functions upon winch the federal and lire state governments can legislate; the remaining functions, either specifically mentioned or included hi the exclusive or concurrent list, fall within the residual list.

The allocation of tax-raising powers or determining fiscal jurisdiction is essentially a legislative function. Though, during the military era in Nigeria, the allocation of tax-raising powers was issued through the instrument of decrees. An example of the above is witnessed in the financial provisions t Decree No. 15, 1967, (Elaigwu,-2007), others are Decree No. 13, 1970, Decree No. 9 1971, Decree No. *6* 1975.'

The revenue sharing formula has a chequered history starting from 1946; the Phihpson Commission, Hicks - Philipson, 1951, Chick, 1953, Raisman, 1958, Binns Commission, 1964, Dina interim. Committee, 1968, Decrees of 1970-77 as cited earlier in this work, Aboyade Technical Committee, 1977, Okigbo presidential commission, 1980. Though no major changes were witnessed in the sharing formula there are still resentments towards the methods suggested. Their suggestions/recommendations hinge on derivation, population, even development, etc.

Therefore, the system of revenue jurisdiction approved by the National Assembly in 1982 had remained unchanged up to 2000. What has been attended a number of times are the formula with the principal objectives of relating tire allocation on the basis of derivation of the total revenue extracted rather than to the total revenue in the federation account (Gnah, 2006). This was in reference to the 2.0% of the Federal Account previously paid directly to the mineral producing states and 1.5% of the Federation Account allocated to the development of mineral producing areas.

In 1989 an important institutional change was made. The military administration established a Revenue Mobilization and Allocation Commission, comprising a chairman, one member from each state of me federation. The commission was empowered to carry out the following assignments:

a. Monitor the accruals to and disbursement of revenue from the federation account.
b. Review from time to tune, the revenue allocation formula and principles in operation to ensure conformity with changing realities.
c. Advise lire federal, state and local governments on fiscal efficiency and methods by which revenue is to be increased.
d. Make recommendations and submit its findings, by way of reporting thereto, to the governments of the federation and slates as the case may be, regarding the formula for the distribution or federation account and the local government accounts.

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The 1999 system of revenue allocation approved in 1982 was adopted with modifications. However, in 1992, there was a review of the allocation formula, involving a reduction of the federal government share in the federation account to 48.6% and the state's shares to 24%. The share going to the special fund, *including the* ecological fund and the fund for tire development of oil-producing areas, was increased from 5 to *7%*. The share of the local governments was increased to 20% in the recognition of the increased' responsibility of the local governments.

Start tax used to be a major source of internally generated funds for slate governments. Until 1994, it was replaced by Value Added Tax (VAT) in an attempt to ensure that state governments adopted uniform rates and to enhance receipts. The federal government assumed responsibility for tire administration and collection of the proceeds of VAT. Revenues of VAT were initially shared in the proportion of 20:50:30% to federal, state, and local governments, respectively. Later tire same Year, tire corresponding shares were amended to 40:35:25%. In 1993, the formula for sharing the proceeds was again revised to 35:40:25 per cent for the federal, state and local governments, respectively.

In 1999, there was a return to a democratically elected government. Section 162 of the 1999 constitution revised the formula for allocating the federation account, taking into account, the principles of population, equality of state, internal revenue generation, landmass, terrain as well-as population density, it also provided that the principle of derivation shall be constantly reflected in the formula as being not less than 13% of the revenue accruing to the federation account directly from any natural resources.

The distribution of revenue among the states and local governments was based on the following principles mid weights as approved by the National Assembly.

1. Equality of states and local governments - 40 per cent
2. The population of state and local governments - 30 per cent
3. Social development factor - 10 percent
4. Landmass/terrain"- 10 percent
5. Internal revenue effort - 10 percent

Equally, inl999, the ratio in the distribution of VAT was changed to 15:50:35 for federal, state and local government.

In the bid to improve on the revenue sharing formula, the National Revenue Mobilization, Allocation and Fiscal Commission, f9S'S' (NRMAFC) recommended Vertical and Horizontal distribution from 2001 to 2004.

It worthy to note at this juncture, that the implementation of the derivation provision in the constitution has not been smooth. Alter, the return to democratic rule in *1999,* the government of the (six) Niger — delta states had to wage a relentless campaign to compel the government of President Obasanjo to comply, and it did so in 2000 with 40% of the revenue withheld by the federal government. The federal government went to court to seek adjudication on the vexed issue of onshore/offshore dichotomy. Supreme Court ruled in 2002 against the coastal states. The point of emphasis is that neither the implementation of the 13% of the Supreme Court has satisfactorily settled the matter.

Fiscal federalism under Obasanjo was very weak because he tried in many ways to scuttle true fiscal federalism through federal legislation. This, he did by taking over the control, and supervision, and

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even management of state finances and local government. The first was monitoring of revenue allocation to local government Act 2005. The Act puts tire federal government in a position to take over the control and supervision of allocations to local governments completely. The other incredible provision of the Act enjoins each state of the federation to establish State Joint Account Allocation Committee. In fact, the act was an attempt to abolish federalism mid institute unitary government in its place. The underlying provisions of the Act are that the money in the Federation Account belongs to the federal government alone, which, as owner and paymaster have, the power and duty to ensure its proper utilization and management by the recipients (the state and local governments).

Again, there was the direct allocation of funds to local- governments from the Federation Account without channelling it through the state government. This act is criminal and unconstitutional.

There was another bill known as the fiscal responsibility Bill which intends to obliterate Nigeria's federal system and convert it into a unitary system. This bill attempted to empower the federal government to legislate for states, even on subjects that are within the exclusive jurisdiction of the states in tire constitution. Tire bill arrogated to tire federal government, the right to legislate for all tiers of the government without due regard to the constitutional status of the state government as a separate and autonomous tier of government endowed by the constitution with independence, from control and interference.

Finally, the fiscal operation of that time was circumvented to suit the federal government in power thereby making the component units of the federation slaves of the highest order.

Nwokedi (2003), worked on revenue allocation and resource control in the Nigeria federation. The study gave an insight into the genesis of the crises hi the management of the revenue accruing to the federal government by delving into the historical background of the evolution of the federal-state system of government in Nigeria. It explored the constitutional and extra-legal provision that determines tile rights and responsibilities of the federal aid stale governments in generating and sharing the centrally collected. revenue amongst the component units. It further highlights the interplay of political forces mm conflict of interest and the negative and disruptive impact of military intervention in government in the management of the resources of tile country. The provision of the 1999 constitution and its inadequacies have heightened the political tension and disagreement between the tiers of government. Finally, proffered a more realistic and equitable model for revenue sharing between the centre and other tiers of government in order to redress the established dissatisfaction arising from the previous order, in the order to redress the established oil-producing states. He advocated for strict adherence to the landmark ruling of the Supreme Court pending the review of the 1999 constitution.

Elalgwu (2007), edited a collective work on fiscal federalism in Nigeria: facing the challenges of the future. The authors concentrated their efforts on the clarification of the global and national issues of the debate in the area. In their bid to ensure transparency and accountability in Nigeria's fiscal federalism, they emphasized confidence-building among the various stakeholders, federal, state, and local governments, given the current level of collection, custody and distribution. They advocated for collective monitoring of the fiscal process in order to sustain material confidence and that such monitors, like RMAFC and other stakeholders, shall come to regard themselves as monitors. Each stakeholder can signal an alarm when it feels that da, a consensus has been broken or side, tracked.

In the same vein, Onali (2006), in a work titled, fiscal federalism in Nigeria, which he edited, traced the genesis of Nigeria federation to have started .as unitary colonial state and its disaggregation from 3 regions to 36 states. Other facet of fiscal federalism as applicable to Nigeria, was examined by them.

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Precisely, the study concerned itself with the allocation of tax jurisdiction and expenditure responsibilities among the central and sub-unit governments in a federation.

Contentious Issues in Nigeria Fiscal System

The heterogeneous nature of the country and the subsequent adoption of federalism ' have made the centre the monopoly of control, distribution and allocation of resources. This made it possible for the central government to retain the greatest chunk of the centrally collected revenue.

The recommendation of the technical committee on the Revenue Allocation set up by the federal government in 1977, jettisoned the idea of the principle of derivation on the ground that it would deny the Federal Government, the power to effect inter-sate redistribution of income. Ever since the Aboyade Technical Committee Report, the successive governments have progressively adhered to this policy goal by de-emphasizing the principle of derivation and reduction of states shares of centrally collected revenue. The result of this was that the states virtually became bankrupt and unable to meet their constitutional or statutory obligations and responsibilities.

Another constraint to state funding is the limitation in taxation and lack of access to the capital market. That is why Nwokedi (2001) observed that the government is the biggest single most important intermediary in the economy, the intermediation is largely restricted. Another contentious issue in the fiscal federation of Nigeria is the over-centralized structure of the federal government which have denied the local government of its autonomy. Onwe (2010), described, the scenario as the unitarization of fiscal relations.

Above, all the de-emphasis on derivation principle made the polity very volatile and the stability of the country not certain as the Niger-Delta states agitate for an increase in the revenue allocation to the region. All the measures adopted by the federal government like adhoc provision of special funds or establishment of special federal commissions were mere palliatives in solving their peculiar geographical and ecological problems and oil pollution that have devastated their communities for so long. Other states in the eastern part of the country with majority communities that felt marginalized under prolonged military regimes have joined the call for more shares of the centrally collected revenue and the review of the constitution to grant states more economic and political autonomy. This is true in that sense 1992, the revenue sharing formula remained unchanged and new principles like education, school enrolment is now being emphasized. This has created a problem in the disbursement of revenue, coupled with the neglect of the provision of the 1999 constitution that* treated the issue of revenue sharing.

The crisis emanating from the above boils down to the guest for return to the derivation principles by giving greater weight to it in the revenue allocation formula. The current realignment of political forces,- as it concerns the revenue sharing formula is threatening national security and unity. This case is made worse by the further politicization and the provision of the 1999 constitution which gave the National Assembly the responsibility of sharing centrally collected revenue in the Federation Account between the Federal and State Governments, as well as jurisdiction over taxation on matters from which major revenue are derived.

III. Theoretical framework

In this study, agency theory, Equity and distributive theory are applicable but the emphasis was on the distributive theory.

Distributive theory, according to Ray (2004), implies that decisions and policies have one major task i.e. to allocate and distribute the values which are controlled by the power holders in a political system. According to Lasswell (1950), D.T points out the objective of government and politics by posing the most famous question of who gets what, when and how? This stresses the imperativeness of the authoritative allocation of resources and who would qualify to enjoy the allocated values.

In the words of Ray (2004), values and items allocated are also very important because they form the core of the distributive approach. Values are those qualities, situations and concepts, that people consider to be of immense importance. Values, according to Lasswell (1950), are both ends in themselves and means or instruments for the achievement of other values, to Lasswell (1950), distributive analysis is primarily interested in the individual process in terms of values', and' when' and 'how' lie gets it.

From the above, we can infer that who gets what, when and how; is determined by multiplicity or interpersonal relationships, related to the exercise of power and influence in a political environment. Therefore, federalism requires sharing powers among the three tiers of government. In the bid to exercise this power, the constitution assigned responsibilities and further provided the modes of sharing revenue. The most important thing as far as tins discussion is concerned is the maintenance of equity while sharing these funds, and providing common services to the various segments of the Nigerian federation. What a state and local government get is predicted on the principles adopted. And going by those principles, equity may be neglected. This has made the other tiers of the government to be dependent on the central government for their survival. Therefore, in the sphere of resource control, resource distribution' and allocation, Nigeria is centripetal. The factor has resulted in poor service delivery of the states and - local government in that master-slave relationship it has been enthroned. The states and local governments are not financially autonomous.

Based on this premise, the federal government appropriated both political and fiscal powers that enable it to subdue the component units of the federation and bring them under .undue influence and control. The question of distribution *of* 'who' gets 'what', 'when, and how? is defined by the centre. The entire scenario could be compared to the adage "he who pays the piper calls the tune." All of this has ramifications for the overall development of the other tiers, as they may become financially incapacitated at any time, resulting in poor service delivery.

IV. Discussion

Fiscal Federalism and Political Stability of Nigeria under Obasanjo's Administration *199*9-2007

In terms of Nigeria's fiscal operation under Obasanjo's administration, there was no significant change from the status quo. Suffice it to say that the lucrative taxes are under the jurisdiction of the federal government for administrative efficiency, particularly in terms of tax collection. Subsequent discussions will focus on the factors impeding political stability in terms of revenue distribution and resource allocation.

Therefore, the current fiscal arrangement is characterized by the weak, fiscal capacity of both the state and local governments, (see Appendix one) to buttress the above facts. The Obasanjo's eight years of command approach to federalism had alienated state governors, whom he treated as prefects. The process of fiscal federalism had become corroded by mutal suspicion and lack of accountability and confidence in the existing institutions and processes of fiscal federalism. This was witnessed in the case between the Revenue Allocation and Fiscal Commission and Obasanjo's federal government in 2007. The Commission sued the federal government for illegal withdrawal of 2.071 trillion from the

Federation Account. Several cases of abuse of the actual operation of intergovernmental fiscal relations were copiously recorded with the government at the centre.

The tinkering and butchering of the system were much witnessed during his regime as could be seen in the many bills and laws to aid the centre in the manipulation art. For instance, this period saw the emergence of the Fiscal Responsibility Bill, EFCC, ICPC Acts, monitoring of revenue allocation to local government Acts and the establishment of fiscal responsibility council. All these federal legislation were the medium through which Obasanjo attempted to take over direct supervision, control and management of state and local government finances. All the above violate the principles of autonomy which these bothes are supposed to enjoy as entities that make up tire federation. These measures worsened the already political uneasiness that pervaded the polity.

The above notwithstanding, the period under review saw the Nigerian fiscal system undergo rapid decentralization. The rapid decentralization could be attributed to the following factors:

1. Stricter enforcement of constitutional requirements, in particular; since the return to the civilian regime, the FGN has been much disciplined in enforcing the existing revenue-sharing rules Was the case in the 90s;
2. Restoration of the derivation principles in the 1999 constitution.
3. The supreme court decision of 2002 that reduced the size of the first line deduction from the federation account and;
4. Some adjustments in federation account allocation shares since 2002 that favoured the sub-national governments.

Again, between 1999-2007, the Obasanjo's civilian government tried but did not succeed, in resolving the problems of marginalization and the mutual fears and suspicions of ethno-regional and religious domination. In the bid to solve the problem he pumped more revenue to oil-producing states w an effort to redress deep-seated perceptions and* feelings of deprivation, the failed promises and politicization of the revenue sharing formula further alienated the restive youth in the Niger-Delta. The resultant effect was conflict, and demand for resource control. Therefore, the political stability of the country was not fully realized to the surprise of many, despite the fact that the government was a civilian one.

Summarily, one can adduce that Nigeria fiscal system is being beset by these problems:-

1. The existence of significant vertical fiscal imbalance between the central and sub-national government;
2. Lack of fiscal autonomy regarding state and local governments;
3. Lack of widely acceptable revenue sharing formula;
4. Debt overhang problem at the centre.

Nigeria is a federal state with three layers of government just as federalism is regarded as a natural and practical arrangement of large states. These levels of government have different spheres and functions, all enshrined in the federal constitution.

Federalism ought to provide checks and balances on a territorial basis, keeping some government functions closer to the people, and achieving the representation of ethnic differences. To perform these functions assigned to federating units, the constitutions provided the bases for the distribution of the

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nation's resources by allocating to each level their revenue earning right. The most important tiling as far as this discussion is concerned is the maintenance of equity while sharing these funds and providing common services.

Unfortunately, this has not been the case as the fairly large reserves of funds are controlled by the federal government; thereby making states heavily dependent on federal allocation for their revenue needs.

The above trend has made me believe the words of Wheare (19965:23), that financial subordination makes an end of federalism. The present sharing formula has made slate virtually dependent on the centre. Therefore, even in the sphere of resource control, resource distribution and resource allocation, Nigerian federalism is centripetal and the federating units are most disadvantaged. This single factor, makes them go cap in hand to the federal government begging for the fund to execute their constitutionally assigned roles. This statement was buttressed by Adeusi (1996:3) that the current practice of federalism in Algeria has tended to raise fears of an ever centralized federal structure. This has hampered their autonomy as a result of close supervision as seen in the controlling mechanism of Obasanjo's administration.

The above testimony buttresses the fact, that the distributive approach is good if only equity will be applied. The above scenario depicts master-servant relations on the issue of fiscal federalism and distributive analysis. The question of distribution of 'who' gets 'what' 'when' and 'how' are defined by the centre. On the contrary, the nature of the topic demands that distributive theory be applied, but because of its inadequacies, agency theory seems to be most suitable, in that the principal and the agents have certain rights and concrete agreement guiding such business. 1 his confers on them right to negotiate whenever there is a breach of an agreement or not comfortable with the activities of the agents, ibis is avered to the rigidity of the constitution which may take a long process before its amendment.

V Conclusion and Recommendations

The democratic pressures in the Nigerian federation are likely to respond to the federal pendulum's current centrifugal swing. Unless something dramatic happens, it appears unlikely that Nigeria will eventually have a federation with a weak centre within the next decade. However, as the federal grid grafts and emblazons, democratic institutions and a new culture of tolerance and cooperation in inter-governmental relations are instilled, Nigeria may see a gradual adjustment in its vertical structure in favour of a more appropriate power-sharing formula among the levels of government. For the time being, centrifugal forces continue to push for a drastic reduction in the central government's strength, beginning with the federation's revenue sharing formula. Many suggestions have been made as to how Nigeria's fiscal system can be improved. The following recommendations are based on this premise:

1. Mutual compromise is required to allow fairness, justice, and relative equity to lubricate the federation's wheels. This will be possible if greater intergovernmental interaction is encouraged, as it will reduce the problem of inter-tier conflict.
2. The federal revenue should be diversified and this requires diversifying the Nigerian economy and moving away from reliance on crude oil exports.
3. The courts need to be strengthened and protected against executive interference and lawlessness so that they continue to play positive roles in Nigeria democratic development.
4. The establishment of a permanent finance commission on revenue allocation like those that exist in countries like India & Mexico. The officers of the Commission must enjoy tenure of 7 - 10 years.

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Finally, if the above recommendations are strictly observed, integrate into the national policy framework, the country will by this means achieve relative stability through her fiscal system.

5. The establishment of an Independent Inter-governmental Committee to promote a framework of fiscal discipline and fiscal policy coordination. Such a framework will incorporate the adoption of fiscal rulers.
6. An amendment to the 1999 constitution to provide for the devolution of more powers to lower levels of government.

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APPENDIX 1: JURISDICTION OF MAJOR TAXES IN NIGERIA

Types of tax	Administration And collection
Import duties	Federal
Excise duties	Federal
Export duties	Federal
Mining and royalties	Federal
Petroleum sales and profit tax	Federal
Companies gains tax	Federal
Capital gains tax	Federal/States
Personal income tax	States
Personal income tax armed force, external affairs officers on residents, residents of the Federal Capital territory and the Nigeria police	Federal/States
License fees on television and wireless radio	Local
Stamp duties	Federal
Capital transfer tax (CTT)	Federal/State
Values Added tax	States
Pool Betting and other Betting taxes	Federal
Motor Vehicle and Drivers licenses	States
Entertainment	States
Land registration and survey fees	States/local
Property taxes and rating	States
Marketing and trading licenses and fees	Local
Motor park duties	Local
Advertisement fees	Local
Gift tax	States

Source: Constitution of the Federal republic of Nigeria (1999)

APPENDIX 2: Nigeria: Federal, State, and Local Expenditure Assignments

Assignment	Jurisdiction
Defense	Federal
Foreign affairs	Federal
International trade	Federal
Interstate trade	Federal
Environment	Federal
Air and rail transport	Federal
Agriculture,	Federal / state
Education	Federal / state
Health	Federal, state, & local
Police	Federal
Natural resources	Federal, state, & local
Highways	Federal, state, & local

Source: President Commission on Revenue Allocation 1980 Vol. 1 Main Reports

APPENDIX 3: Developments in Horizontal Revenue Allocation in Nigeria: 1946 – 2002

S/N	Commission /Committee	Recommended Principles	Other Basic Features of Recommendation/Formula
1.	Phillipson, 1946	(i) Derivation (ii) Even progress	Balance alter meeting Central Government budgetary needs allocated to Regions.
2.	Hicks-Phillipson, 1951	(i) Derivation (ii) Fiscal autonomy (iii) Need (iv) National interest	Proportions of specified duties and taxes allocated to regions on the basis of derivation, special grants capacitation, education and police.
3.	Chick, 1953	(i) Derivation (ii) Fiscal autonomy	Bulk of revenue from import duties and excises to the Regions on the basis of consumption and derivation.
4.	Raisman 1958	(i) Derivation (ii) Fiscal autonomy (iii) Balanced development	Proportions of specified revenues distributed on the basis of derivation. Creation of distributable pool account (DPA) with-fixed Regional proportional shares: North, 40 percent West, 31 per cent; East, 24 per cent and Southern Cameroons. 5 percent
5.	Binns, 1964	Same as (4) above plus financial comparability	Composition of DPA relative shares slightly altered: North 40 per cent, East, 30 per cent; West 20 per cent and Mid- West 8 per cent.
6.	Decree No. 15, 1967	Same as (5) above.	Regional proportional shares of the DPA split among the 12 new states. 6 Northern States received 7 per cent each. East and Western States shared in accordance with relative populations.

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7.	Dina, 1968	(i) Even development (ii) Derivation (iii) Need (iv) Minimum responsibility of government	Special Grants Accounts introduced, recommended the establishment of a permanent Planning and Fiscal Commission. Recommendations rejected
8.	Decree No. 13, 1970	(i) Population (50%) (ii) Equality of States (50%)	Export duties to States reduced from 100% to 30%; duty on fuel to States reduced from 100% to 50% mining rents and royalties to State reduced FROM 50% to 45%
9.	9,1971' Decree No. 9, 1971	(i) Same as (8) above	Transferred rents and royalties of offshore petroleum mines from the States to Federal Government
10.	Decree No. 6,1975	Same as above	On-shore mining rents and royalties to States reduced from 45 to 20 per cent Remaining 80% go to the DPA. Import duties on motor spirit and tobacco to be paid 100% into DPA. 50% of the excise duties retained by Federal Government 10% to DPA.
11.	Aboyade, 1977	(i) Equality of access 0.52% (ii) National minimum standards 0.22% (iii) Absorptive capacity 0.20% (iv) Independent revenue 0.18% (v) Fiscal efficiency 0.15	Replaced DPA with federation account. Fixed proportional share out of this account between Federal, 75%; Stale 30%, Local Governments, 10% and Special Fund 3%. Stale Joint Accounts and Local Government Joint Account created.
12.	Okigbo, 1980	(i) Population 40% (ii) National minimum standards 40% (iii) Social development 15%, Internal revenue 5%	Federation Account to be shared; Federal Government 53%; State Governments, 30%; Local Governments, 10%, Special Fund, 7%.
13.	1981 Act	Same as (12)above	Federation Account shares: -Federal Government 55%; State Governments 30.5%; Local Government 10%; ecological problems 1%, development of mineral producing' areas, 1.5% derivation, 2%
14.	Decrees No. 36, 1984	Same as (13 above but social development (primary school enrolment direct, 11.25%, inverse, 3.75%).	Federation account to be shared: Federal Government 55%; Stale Governments, 30.5%; Local Government, 10%; ecological problems 1%, development of mineral producing areas, 1.5% derivation, 2%.
15.	Danjuma 1989	(i) Equality of States 40% (ii) Population 30% (iii) Social development 10%	Federation account to be shared: Federal Government, 47%; State 15%; Special Fund (8%); FCT, 10%; Stabilization 0.5%; savings 2%; derivation, 2%; development

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		(iv) Internal revenue effort 20%	of non-oil mineral producing areas, 0.5%; general ecology, 0.5%.
16.	AFRC Approval, Jan. 1990	(i) Equality of States 40%, Population 30% (ii) Social development (iii) 10% (Education 4%; Health 3%; Water 3%) (iv) Landmass and terrain 10% (v) Internal revenue effort 10%	Federation Account shared: Federal Government 50%; State Governments 30%; Local Governments, 15%, Special Fund (5%). FCT 1%; stabilization. 0.5%; derivation, 1%; development of oil mineral-producing areas, 1.5%- general ecology, 1 %.
17.	AFRC Approval, Jan. 1992	Same as (16) above	Same as (16) above except that State Governments (25%) and Local Governments (20%).
18.	AFRC Approval. Jan. 1992	Same as (17) above	Federation Account Shared: Federal Government, 48.5%; State Government, 24%: Local Governments (20%); special fund (7.5%); FCT, 1%; stabilization 0.5%; derivation, 1%; -development of oil mineral producing areas. 3%; general ecology, 2%
19.	NRMAFC /President Obasanjo, 2001	Not available	Federation Account Sharing: Federal Government 41.5% State Governments 31.0% Local Governments 16.0% Others 11.5% The 11.5% i.e. others was to be shared as follows Basic Education 7% Agriculture & Solid Minerals 1% Ecology 1 % Scientific Research & Development 1% Fedenfl Capital Territory 0.5% National Reserve Fund 1.0%

Source: Compiled by the authors from the various revenue allocation formulae published by the Federal Government