

## Review

# Federalism and the quest for true revenue mobilization, allocation and fiscal commission in Nigeria: A comparative analysis

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**In any federal system, the nature and conditions of the financial relations are crucial to the survival of the country. In fact, in most federal countries, the federating states always have some issues such as discourse, dispute and wrangling with the centre. The issue is centred on the problem of securing adequate financial resources to discharge essential political and constitutional responsibilities. Nigeria is not an exception. The decision as to what percentage of centrally generated revenue that would be retained among the tiers of government has always been a problem. These anomalies, the article contend must be remedied in order to sustain a true federal system in Nigeria.**

**Key words:** Federalism, fiscal commission, government, revenue mobilisation.

## INTRODUCTION

This intellectual disquisition is designed to critically and comparatively assess the role of the Revenue Mobilization Allocation and Fiscal Commission. The Babangida administration by virtue of Decree No. 49 of 1989, established the National Revenue Mobilization Allocation and Fiscal Commission (NRMAFC) to among other things review periodically, the revenue allocation principles and formulas and to prescribe and apply the approved formulas which the federal government would use in the sharing of the federation account between the three tiers of government.

At the core of this paper, is a comparative assessment of Nigerian brand of intergovernmental fiscal relations vis-à-vis that of Australia, Canada and USA in view of its mechanics and dynamics of implementation. In order to achieve this, the paper examines the composition, functions and political dynamics affecting the commission in its onerous responsibility to oversee the revenue sharing formula amongst federal, states and local governments as enshrined in the 1999 Constitution of the Federal Republic of Nigeria. Essentially, section 153 of

the 1999 Constitution provided for the establishment of the National Revenue Mobilization Allocation and Fiscal Commission with its Chairman appointed by the President of the Federal Republic of Nigeria.

In view of the historical commitment to federalism as a means of coexistence and unity, fiscal federalism has been an important and central feature of inter-governmental relations in Nigeria. The construction of a stable and acceptable inter-governmental fiscal relation has been the subject of many commissions and committees since 1914 (Ezra, 1960); today the issue still evoke virulent contestations amongst politicians and academics.

According to the (Hick-Phillipson report, 1951: 68), the controversy over revenue allocation dates back to the origin of Nigeria. From 1901 to 1914, Northern Nigeria was dependent on outside assistance in order to balance her budgets. Each year it received a large grant from the imperial government and contributions from the southern Nigeria in lieu of customs revenue. Amalgamation therefore became a clever ploy by the colonial government to reduce the dependence of Northern Nigeria on the British taxpayers. This act provoked bitter controversy at the time rousing resentment of educated elites and some British administrators (quoted in

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Osadolor, 1998: 35). This virulent and contentious issue has persisted till independent and post independent era (Ake, 1982, 1991, 1996). Between 1948 till date, nine commissions, six military decrees, one Act of the legislature and two Supreme Court judgments have been resorted to in defining and modifying fiscal inter-relationship among the component parts of the federation (Ozon-Eso, 2005). The inconclusive discussion of the issue at the 2005 Political Reform Conference is the latest attempt to define or redefine or interpret the framework for revenue sharing both vertically between centre-states and horizontally amongst states of the federation. The paper therefore examines the nature of Nigerian federalism and how it has created instability as a result of allocation of resources among the federating states in the country.

This paper is structured as follows: introduction and theoretical framework; the composition, functions and political forces at play that have impacted favourably or otherwise on the commission's role; inter-governmental fiscal relations in federal system like Australia, Canada, United States of America and Nigeria; conclusion and recommendations.

## CONCEPTUAL FRAMEWORK

Federalism as a political system was adopted to cater for diversities and heterogeneity of these societies as well as address the twin issues of maintaining unity while preserving diversity (Davis, 1967; Adamolekun and Kincaid, 1991). It is considered in these circumstances as a means of preventing a single group from dominating the others as well as monopolizing the consumption of public goods. Federalism, therefore, is not only a means of forging unity in a society but also an attempt to allay fears of domination of one group by another. More so, it is only federalism which satisfies the desire for a national identity, retention of separate local identities and a corresponding distribution of governmental power (Nicholson, 1966).

Some writers on federalism stress that governments within federal system have not been independent of each other but have in practice been interdependent and interacted with each other in a relationship of both cooperation and rivalry (Duchacck, 1970; Akinyemi, et al., 1979). Eme Awa in his analysis of federal government argues that federalism involves cooperation, bargaining and conflict. There has always been a measure of cooperation between the two levels of government. Such cooperation increases in scope and quality as the federation matures (Awa, 1976: 6-7; also see King, 1982). Watts view reinforces Awa's. He explains that traditional definition of the federal form of political organization has many difficulties as no single federation has fully embodied the federal principles as others have

enunciated. This has led many writers to assert that it is more appropriate to use the term "cooperative federalism" in describing a federal government (Watt, 1970) cited in Omotola (2006). Jinadu (1982) view federalism as a form of governmental and institutional structure, deliberately designed by political architects to cope with the twin but difficult task of maintaining unity while also preserving diversity. According to K.C. Wheare, federalism is a method of dividing powers so that general and regional governments are each within a sphere, coordinate and independent. Wheare's formulation or conceptualization portrays federalism as a principle of organization and practice whose ultimate test is how the federal system operates. He sees federal government as a constitutional arrangement, which divides law-making powers and functions between two levels of government (Wheare, 1963; Omotola, 2006:23). Rufus (1967: 9) while agreeing with Wheare for the most part dismisses as unattainable his requirement of financial autonomy. He rather suggests some equalization grant to be controlled by the central government. This he believes would further a uniform standard among the components units of the federation. Again he said, to be meaningful, the standard of sufficiency for each unit must be related at least, to the business of any fiscal scheme as to ensure that each unit will be able to reach the standard preferably, by its own efforts.

Friedrich (1966: 786) in an attempt to explain federalism avoids the pitfall in Wheare's conceptualization of federalism. He argues that federalism is a process by which unity and diversity are politically organized and this process includes persons, institutions, etc. To him a federation is a group of states united together by certain common objectives while maintaining their distinctive group character in other spheres. Livingstone (1952) is another scholar who has clarified the federal principle. He opines that federal structure comes about as a result of socio-economic, cultural and political interaction. While noting that the documentary constitution may be a poor guide as to whether a political system is federal or otherwise, he explains that the essential nature of federalism is to be sought for not in the shading of legal and constitutional terminology, but in the forces of economic, socio-political and cultural that have made their outward forms of federalism necessary. The essence of federalism lies not in the society itself. Federal government is a device by which the federal qualities of the society are articulated and protected. This explanation by Livingstone is also a departure from Wheare's construct.

Etzioni (1965) sees federalism as an attempt to cope with the problem of power. On this premise, conflict is endemic to the unification process and such sociological variables as ethnicity, religion will feature prominently in the conflict. A successful operation of federalism is basically a resourceful attention and tackling of these

awkwardly divisive tendencies inherent in most political (federal) set ups. At this point, we examine briefly fiscal federalism. In attempting to define the scope of fiscal federalism in Nigeria, it is pertinent to note that government plays a very important role in the economy. This fact is even more crucial in developing countries like Nigeria. Through various policies, government is able to guide and influence development direction of the economy and the general wellbeing of the state (Diamond et al., 1998). Fiscal policy therefore means part of government policy that is concerned with raising revenue through taxation and other means and deciding on the level and pattern of expenditure (Wheare cited in Ugoh, 2004: 63). In general, fiscal policy is that part of the overall state policy which operates through the revenue and expenditure measures of the public budget (Adedeji, 1969). The present study therefore is concerned with the revenue aspect of fiscal policy especially how this has been used to raise revenue and the manner of its distribution through the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) in the federal system of government in Nigeria.

Composition, functions and political forces affecting the Revenue Mobilization Allocation and Fiscal Commission.

### Composition

The third schedule, part 1 of the 1999 Constitution of the Federal Republic of Nigeria provides that the Revenue Mobilization Allocation and Fiscal Commission shall be composed of the following under listed members:

- 1) A chairman
- 2) One member each from each state of the Federation and the Federal Capital Territory – Abuja, who is the opinion of the president are persons of unquestionable integrity with requisite qualification and experience (Constitution, 1999: 147).

In reality, the President's appointment of the chairman and the other members does not portray that all members have the qualification and most importantly the experience necessary to perform this onerous responsibility. For instance, during the faceoff between President Obasanjo and his Vice President Atiku Abubakar, there were various allegations and horse trading between the duo as to what the chairman of the commission should or should not have done. This clearly demonstrates that the Revenue Mobilization Allocation and Fiscal Commission cannot be compared to the Canadian or Australian type where its composition is of tested professionals and technocrats devoid of partisan involvement.

### Functions

The functions of the commission as outlined in the 1999

constitution are thus:

- 1) To monitor the accruals to and disbursement of revenue from the Federal account.
- 2) Review from time to time, the revenue allocation formula and principles in operations to ensure conformity with changing realities, provided that any revenue formula which has been accepted by an Act of the National Assembly shall remain in force for a period of not less than five years from the date of the commencement of the Act;
- 3) To advise the Federal and State Governments on the fiscal efficiency and methods by which their revenue can be increased;
- 4) To determine the remuneration appropriate for political holders including the President, vice President, Governors, Deputy Governors, Ministers, Commissioners, Special Advisers, Legislators and the holders of office mentioned in section 84 and 124 of the constitution
- 5) To discharge such other functions as are conferred on the commission by the constitution or any Act of the National Assembly (Constitution, 1999: 147 - 8).

The afore-mentioned functions notwithstanding, successive constitutions have always vested the responsibility for the collection of a large proportion of national revenue on the Federal Government, a situation that tend to enrich the centre at the expense of the federating units and Local Governments (Dudley,1982). Thus, the Hamman Tukur Commission on Revenue Mobilization Allocation and Fiscal Commission recommended 13% derivation in the new allocation formulae released in 2001 which has its root in the recommendation of the 1995 Constitutional Conference (Nigerian Tribune, 11 September, 2001: 12). The Federal Government then instructed that 50% of the 13% from the derivation account should go to the oil-producing areas and the remainder should be channelled to the newly established Niger Delta Development Commission (NDDC) (The Punch, October 11, 1993: 13).

Federal control of agencies established with special funds like the Oil and Mineral Producing Areas Development Commission, Petroleum Trust Fund and Niger Delta Development Commission, apart from lack of fairness and equity in the discharge of their functions, tended to discourage initiatives and creativeness as they co-opt all other units in a general manner with little or no regards for local peculiarities (Akinsanya and Ayoade, 2005: 156).

### Political forces affecting the Revenue Mobilization Allocation and Fiscal Commission

A feature of the 1999 Constitution was the provision under Section 162, which established some principles to be applied by both the Revenue Mobilization Allocation and Fiscal Commission and the National Assembly on the subject of revenue allocation.

Sub-section 2 of section 162 of the 1999 Constitution stipulates that the President upon receipt of advice from the Revenue Mobilization Allocation and Fiscal Commission, shall table before the National Assembly, proposals for revenue allocation from the federation account, and in determining the formula, the National Assembly shall take into account, the allocation principles especially those of the population, equality of states, internal revenue generation, land mass, terrain as well as population density. This sub-section further stipulated that the principles of derivation shall be constantly reflected in any approved formula as being not less than thirteen percent of the revenue accruing to the Federation Account from any natural resources.

Section 162 sub-sections 3-8 of the 1999 Constitution provided for the mode of revenue allocation not only between the Federal Government and the State Government, but also with the Local Governments which were recognized as the third tier of government. Consequently, any amount standing to the credit of the federation account must be distributed amongst the Federal, State and Local Government councils in each state on such terms and in such manner as may be prescribed by the National Assembly. Furthermore, any amount standing in the credit of the states in the Federation Account shall be distributed among the states on such term and in such manner as may be prescribed by the National Assembly. Similarly, any amount standing in the credit of Local Government councils in the Federation Account shall be allocated to the States for the benefit of their Local Government Council on such terms and in such manner as may be prescribed by the National Assembly.

Section 162 sub-section 6 of the 1999 Constitution specifically noted that each state shall maintain a special account to be called "state joint local government account" into which shall be paid all allocations to the local government councils of the state from the federation account and from the government of the state. While sub-section 7 of section 162 maintained that each state pay to local government councils in its area of jurisdiction such proportion of its revenue on such terms and in such manner as may be prescribed by the National Assembly.

At the level of praxis, the Revenue Mobilization Allocation and Fiscal Commission in 2000 recommended a review of the existing sharing formula thus:

Federal Government	41.3%
State Government	30.7%
Local Government	15.0%
Special Funds	13.0%

The Commission also recommended that the horizontal disbursement of funds amongst States and Local Government should be as follows:

Equity	4.5%
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Population	2.5%
Population density	2.0%
Internal revenue effort	8.0%
Land Mass	5.0%
Terrain	5.0%
Rural roads and waterways	1.5%
Portable Water	1.5%
Education	4.0%
Health	3.0%

The Commission recommended that 60% of the derivation fund be allocated to the federating states and 40% to the Local Government Councils in the oil-producing areas. The Southern states were dissatisfied with this allocation formula because it was contrary to the practice in the first Republic especially as derivation has become anathema. Furthermore, more revenue would and should have been available to them for developmental purposes.

The oil-producing states went to court for judicial interpretation of relevant section of the constitution. The Supreme Court made adjustment to the afore-mentioned recommendations as:

Federal Government	46.43%
State Government	33.20%
Local Government	20.73%

Bolaji Omitola asserts that the federal government not only set aside the recommendation of the Revenue Mobilization Allocation and Fiscal Commission, but also the recommendation of the Supreme Court as President Olusegun Obasanjo issued an executive order pursuant to section 315 of the constitution pending the approval of a new revenue allocation formula by the National Assembly (Akinsanya and Ayoade, 2005: 156). The executive order as was expected gave executive share of (54.68%) to the Federal Government (The Punch, March 2nd, 2004: 3; Ugoh 2011: 119 – 120).

The perennial and sometimes conflict-ridden relationship between the Federal and State Governments over revenue allocation is indicative of how the country has deviated from the original idea of federalism (Achebe, 1983). Revenue allocation based on derivation was practiced in Nigeria from 1950s to 1967 when the twelve states federal structure was created. The reason for aborting this principle according to the federal government was to allow for even development of the twelve states. Rather than develop locally based resources; most of the states now wait for largesse from the federal government in the name of allocation from oil revenue (Ige, 1995). The present states of fiscal federalism stifled local initiative, promote inefficiency and fostered a sense of overdependence on the federal government (Olukoshi, 1991). Indeed, it has created a system that discouraged work by having booty capitalism which is shared every month. Adherents of federalism asserts that this

paternalistic form of federalism does not sustain development as it rather encourages crisis and conflict as manifested in the Niger Delta.

In the economic realm, the oil producing areas have been subjected to abject neglect (Naanen, 1995). 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 (Obi, 1977 also see Obi 1997). The region has the highest rate of unemployment. Thus, while it is a treasure base with black gold, it is also paradoxically Nigeria's poverty enclave (Babawale, 2003).

Conversely, the unprecedented and embarrassing looting of the national treasury by officials at the highest level of state, as witnessed in the past years, is one of the consequences of over-concentration of resources at the centre far beyond what is required to administer the state.

In view of the over-centralization and stupendous corruption of officials at the centre, the South-South Governors, members of the State Assemblies and members of the National Assemblies from the South-South met in Yenagoa, Bayelsa State April 27 to 28; in 2000 and after their deliberations issued a communiqué bordering on derivation with the following:

- 1) The conference commended the president for releasing the 13% derivation fund to the oil producing States, it rejected:
  - a) The implementation of the 13% derivation fund with effect from January 2000, instead of May 29, 1999 when the constitution came into force;
  - b) The computation used for the 13% derivation fund excluded the 40% offshore component of the derivation principle in complete violation of the provisions of the 1999 constitution;
  - c) The non-inclusion of the gas component in the computation of the 13%;
  - d) The payment of the first charge, debt servicing and other charges to the federation account before the computation of the 13%;
  - e) The proposed presidential monitoring committee on the 13% derivation fund, and considered it ill-advised, misconceived and unnecessary;
- 2) That the continental shelf, and the 2000 nautical miles exclusive economic zone recognized by the 1982 Law of the sea convention remains an integral part of the coastal – states. The attempted reintroduction of the onshore/offshore dichotomy by the Obasanjo administration is an affront to the rights of the people and government of the states of the South-South Zone;
- 3) The National Assembly should repeal the petroleum Act of 1969, the inland waterways Act and all other

obnoxious laws governing the operation of the oil and gas industry;

- 4) The penalties arising from gas flaring and environmental impact assessment violations should be paid to the impacted States as opposed to the current practice of paying to the Federal Government;
- 5) The laws regulating the environment should fall within the authority of the federating units and therefore place on the concurrent list;
- 6) The oil and gas companies should relocate their headquarters to the prime areas of production;
- 7) The conference reaffirmed its commitment to the indivisibility of Nigeria provided it is based on the universal principles and practice of Federalism (Akinsanya and Ayoade, 2005: 157 – 8).

Responding to the seven point issues raised, the Federal Government sought judicial interpretation of the sea ward boundary of a littoral state within the ambit of the federation in calculating the amount of revenue accruing to the federation account directly from any natural resources derived from the state pursuant to Section 162 of the Constitution of the Federal Republic of Nigeria 1999. The Supreme Court ruled that (1) the sharing of derivation fund of 13% among oil producing states should begin on May 24 1999; (2) that gas should be part of the derivation; (3) that 1% direct allocation from the federation account to the Federal Capital Territory is illegal; (4) that the funding of the judiciary and payment to Nigerian National Petroleum Corporation – joint venture partners as first line charges from the federation account is unconstitutional; (5) that the servicing of external debt from the first line charges is unconstitutional; (6) that the non-payment of derivation on capital – gains tax and stamp duties is unconstitutional. The Federal Government was perpetually restrained from further violating the provision of the constitution on first line payment. The contention over the sea ward boundary of a littoral state within the Federal Republic of Nigeria was put at the low water mark of the land surface (as in the case of the Cross River State with an Archipelago of Islands the seaward limits of island waters within the state) ((ThisDay, Lagos: May, 2002; Ogundare, 2002: 20). There were mix reactions to this judgment by the Federal Government and South-South states...

The perennial haggling over revenue allocation is indicative of how the country has deviated from the original idea of federalism (Tamuno, 1998), which was adopted by the founding fathers of the nation. Indeed, over centralization of power has stifled local initiative. Instead, it has promoted inefficiency and fostered a sense of over dependence on the Federal Government. In fact, it has created a situation, a system or mechanism that discourages work by having 'booty' which is shared every month. If people are not working but depend on booty sharing, they cannot increase economic activity. You cannot nurture people on a system of booty sharing

without production and expect development.

According to Ojefia (2004:7), the agitation for resource control is rooted in the desire to promote the practice of fiscal federalism as the most efficient means of freeing Nigerians from the hangover of military authoritarianism and misrule. He noted that it enunciates a competitive federal system in which every component is able to exploit its vast economic potentials towards rapid development and progress of every section of the country (Tariton, 1965; O'Connell, 1970). An economic definition of a federal system of governments is one in which the expenditure and revenue functions are divided among different levels of government. The essence of this division is to ensure that one level of government does not monopolize the consumption of public goods and services in the federation. The fiscal relations in a federal system vary from country to country and each has unique features of its own. The main issue in intergovernmental fiscal relations concern spending responsibilities, revenue-raising responsibility, intergovernmental transfer and administrative aspect of fiscal decentralization (Nwabueze, 1993). Proponents of centralization argue that decentralization can create problems relating to distributional and microeconomic management objectives where there are great disparities in income and resources among the regions. Centralization will significantly reduce disparities in the provision of public goods and services as well as social and political tensions (Amucheazi, 1980). Conversely, other scholars persuasively contend that poor political management and the erosion of democracy and constitutionalism, the poles which federalism hangs, and the consequent deepening of the crisis of the national question have made a return to the principle of relative autonomy for the states a necessary condition for the workability of the federal solution to the national question. It must be appreciated that intergovernmental fiscal relations is particularly significant for the following fundamental reasons: Firstly, it affects the allocation of administrative responsibilities because the financial resources available will place limits on the scope of administration which either level of governments is able to sustain.

Secondly, it affects the political balance because whichever level of government has the major financial resources, finds in its hand the means of political control.

Thirdly, it is significant also because the assignment of fiscal and expenditure powers will determine which governments are able to use these instruments to control the economy (Watts, 1970: 115).

## A COMPARATIVE ANALYSIS

### Australia

The practice in Australia is to concentrate financial resources at the centre and then redistribute them to

states in order to minimize disparities in the provision of public goods and services. The power to levy customs and excise duties is exclusively reserved for the central government, which also has monopoly over income tax. Here, two bodies are responsible for the administration and regulation of intergovernmental relations, namely, the Loan Council and the Commonwealth Grants commission (Watts, 1970: 125). The Loan Council is the body that authorizes both internal and external borrowing by the government. As a result of its responsibility, this body is dominated by the central government as reflected by the numbers of votes cast as against that of the seven constituent states. The Commonwealth Commission has the responsibility to manage intergovernmental relations in Australia. It not only investigate and applies for special grants for states, but also reviews the relative share of income tax revenue that accrue to states to ensure equitability in the provision of public goods and services.

The commonwealth Grant Commission usually makes two types of grants, namely, unconditional grant in the form of tax reimbursement, and conditional grants which are financial assistance made upon conditions set by the central government. The conditional grants are usually used to implement nationwide policies in education, urban development, community health and urban transportation. The fundamental objective of this policy trust is to achieve a relative measure of reform and uniformity throughout the states and local governments.

Furthermore, the Commonwealth Grants Commission fashioned out a fixed revenue sharing formula since 1970s that is still in operation till today. By the sharing arrangement, the central government takes 64.78% of the personal income tax receipt, while the state and local governments are given 33.6 and 1.52%, respectively (Ebajemito and Abudu, 1999: 220).

From this fiscal formula of the Australian experience, it is incontrovertible to assert that there is a high concentration of finance at the centre. Consequently, a high level of intergovernmental cooperation and coordination between the central and state governments is required to achieve fiscal stabilization to compensate for the unequal economic impact of federation as well as minimize differences in the per capital revenue between component states.

### Canada

Intergovernmental fiscal relations in Canada contrast with what obtains in Australia. There is no permanent institution to manage intergovernmental fiscal relations. The federal provincial conference assisted by its continuing committee on fiscal and economic matters has performed this role on ad hoc basis (Meekinson, 1968).

Canada represents a good example of a much more deeply rooted diversity of national origin, language, culture, religion and judicial system. In Canada, the

emphasis has been on provincial diversity even in the application of economic and fiscal policy. Although attention sometimes have been given to the problem of equalization among the province, the major emphasis recently has been on matching independent revenue to provincial expenditures in order to give the province maximum autonomy and more control over economic policy and development planning.

According to Watts (1970: 121) in Canada, it appears that by the 1950s there was a recognition that uniform central fiscal policies had failed to solve the problems of a differing incidence of unemployment in a number of province as aptly demonstrated in Nigeria today and this was accentuated by provincial pressure for the application of different fiscal policies to foster own regional development. The provinces accordingly have the power to both internal and external borrowing, which reinforced provincial autonomy and dialectically weakened central control over foreign exchange.

### United States of America

In practice, the United States of America combines aspects of the financial concentration of power in Australia with Canada's adhoc arrangements. The central government has considerable financial power and as a result usually lends funds to states and local governments whose financial powers are restricted.

The central government transfers funds to states and local governments in three ways, namely, through loans, grants-in-aid and revenue sharing. Revenue sharing in particular is used to implement certain policies usually aimed at promoting equality among the states or jurisdictions, providing incentives for recipient government to behave in certain ways, and making recipients adhere strictly to any conditions attached to the use of the funds. Funds are allocated among states and then within the states using the following criteria: population, relative income, tax efforts, urbanized population and personal income tax collection as indices for the revenue sharing. Allocation of funds within the state is based on population, per capita income and tax effort. States and local governments are required to adhere strictly to all conditions stipulated for shared revenue fund.

Ebajemito and Abudu (1999: 222) support the aforementioned view when they observed that the conditions used for revenue sharing are thus:

- a) Local government cannot use the funds for education, cash payments to welfare recipients, or for general administration.
- b) They cannot use the funds as matching share for a federal grant (that is counterpart fund).
- c) States cannot reduce net aid to local government below a given level as may be set by the federal government.

- d) The recipient government of revenue sharing fund should not discriminate in employment or in the provision of service financed by the fund so received; and
- e) Revenue sharing funds must be used within twenty-four months of collection.

The central government sometimes assists other levels of government through "tax expenditure" by making tax payers forgo the interest earned on their income tax base. The most fundamental peculiarity of America intergovernmental fiscal arrangement is that it is designed to accommodate changes in social and economic circumstances. If there is the need for additional financial responsibility on the other levels of government, there will be commensurate grants to enable them perform this responsibility.

For instance, states government in recent years is required to take up additional responsibility especially in public education funding and social welfare payments. For these, the central government granted more tax power as well as financial grants to carry out the added responsibilities, thus shifting budgetary pressures from federal to lower levels of government.

### Nigeria

The intractable issue of the character of the Nigerian federation had been the unsettled battle for the basis of resources allocation to component units (fiscal federalism) (Ikejian and Ikejian, 1986). As Brian Smith had rightly explained that: Most of the arguments in Nigeria over the fiscal relationship between the federal and constituent levels of government have centers on the question of revenue allocations between the different parts of the country and the principles upon which distributions should be based (Barongo, 1983). These principles became a major cause of the inter-regional rivalry and conflict, which have dominated Nigeria politics (Dudley, 1982; Ozumba et al., eds.) 1999: 147).

Five separate fiscal review commissions were established between 1946 to 1964 to investigate and recommend changes that would make revenue allocation system more equitable and efficient. These adhoc revenue commissions were followed by yet another series of review regimes between 1964 and 1995 (National Constitutional Conference) that completely subordinated and strengthened the financial position of the federal government in relations to component units. It is instructive to emphasize here that in the pre-1969 period, the principle of derivation predominated the resource sharing in their respective regions, but the shift from agro-based economy to petroleum as a major source of wealth since 1973 had made "derivation" an anathema in the hegemonic context of Nigeria federalism (Amuwo et al., 1998). The reason is that while majority ethnic groups then controlled groundnut, cocoa

and palm oil, the petroleum platforms now are located in the minority states of the South.

Apart from the fact that fiscal allocation from few wealthy states to large dominant states has intractable problems, the principle upon which revenue allocation is based was adopted not to make it more equitable, but to be acceptable owing to the peculiar political circumstances. By this we mean the degree to which allocation was operationalized depended largely on who benefited and how powerful the beneficiary was relative to other states or regions/ethnic groups within the federation. Since the Nigerian military usurped political power in 1967, the essential characteristics of a unitary relationship have developed and are entrenched in the system (Elazor, 1977; also see Elazor, 1987). Consequently the federal government has dominated revenue allocation to the detriment of components units to the extent that local government allocations were disbursed directly to them without recourse to state government.

### Comparative analysis

In the redistribution of financial resources in order to compensate for disparities in taxing capacity among states, there is an interesting difference between Australia and Canada. The disparities among state in Australia are much less than among Canadian provinces (Watts, 1970: 122-3). Yet in spite of the much greater disparity in Canada, Australia has done much more to redistribute the finance among its states. In Canada, there has been an equalization formula that has been designed to ensure that the per capita transfers to the provinces would produce per capita receipts for each province matching the average of the two wealthiest provinces. In other words, per capita receipts of the poorer province have been supplemented to bring them to the same level of the two wealthiest provinces. Conversely, Australia redistribution surpassed the Canadian example with the poorer states actually receiving substantially more per capita income than the wealthiest states.

Thus, in Australia, there has been a major emphasis on the reduction of disparities, even at the expense of state autonomy, through the operation of the Commonwealth Grants commission and the Loan Council, while Canada appears to have followed a pattern involving less redistribution but leaving the province with more autonomy (Watts, 1970: 123). Consequently, the Canadian example has the short coming that it provides no positive assistance towards reducing the gap between the wealthy and poor states but rather merely prevents it from widening.

In the United States of America, revenue sharing programme combines aspects of vertical and horizontal

revenue sharing by taking the taxing capacity, taxing efforts and per capita income of states and municipalities into account. Financial grant-in-aid is given by the central government as financial inducement for a state to undertake a project which is within the state's constitutional responsibility, but which the national government wishes to encourage. For example, in the construction of highways and hospitals, financial grants are given to states to support them. As soon as the hospital or highway is completed, the state assumes full responsibility for operation and maintenance, and further federal supervision of the project becomes unnecessary (Akinyemi et al., 1979: 251). This situation contrasts with that of Nigeria where the federal road maintenance agency is locked in irreconcilable contention with some state agencies over the maintenance of federal roads in Nigeria.

Grants-in-aid in the United States commonly run from 50 to 90% of expenditure. The "earmarked" transfer of funds for support of specific projects or programmes is the key to the grant-in-aid programmes. And these nationally mandated projects must be executed according to specific standards that usually reflect national uniformity. These have decreased the scope of free legislative and administrative choice by individual states.

In Nigeria, the constitution makers considered it unnecessary to impose constitutional limitation on the spending power of the federal government. This has allowed the federal government to use its wider and more elastic power to tax and to borrow, as support for its spending power, in order to influence the performance of functions constitutionally allocated to the state governments. The distribution of conditional grants to state governments in Nigeria has been inequitable, unrealistic and delay in the release of funds for projects already approved is disturbing. The most urgent problem now is how to achieve a seemingly impartial distribution of federal discretionary grants, which facilitate the realization of the national objectives and at the same time, enhances the financial capability of state governments to provide better service to their people. Indeed this is one of the essential conditions for ensuring a more harmonious federal union now and in the future.

In view of the foregoing therefore, it is instructive to emphasize that the whole purpose of having federal standards, procedures and regulations which guide the disbursement and use of federal grants by the state governments is to ensure that such money is prudently spent on specific matters or projects for which they have been committed. Realities in Nigeria indicated that state governments like the central government have spent their resources according to the whims and caprices of the president or Governor as exemplified by the federal and state government 5 million and 240 million dollars financial gift to Soa Tome and Principe and Niger Republic respectively in support of this country's



democratic process. As presently constituted, the national Revenue Mobilization Allocation and Fiscal Commission lack requisite technical expertise and impartiality to carry out its assignment. This is further compounded by the advisory role of fiscal revenue commission whose membership were drawn from persons nominated by the President of the Federal Republic most of whom are politicians rather than technocrats and could naturally dance to the tune of their mentors.

Another problem is in sub-section 8 of section 162 of the 1999 constitution, which provides that each state shall pay to local government councils in its area of jurisdiction such proportion of its revenue on such terms and in such manner as may be prescribed by the House of Assembly of the state. The reality today is that this provision has only transferred the friction between the federal government and the states over the past arrangement to the states and has now caused disputes between the state governments and local governments over the mode of disbursement of federally allocated revenue to the local government councils (Jinadu, 1985, also see Jinadu, 1987).

In addition, the controversy between the federal government and the state government on the number of local governments recognized under the constitution by which the federal allocations to local government councils are made and also on the mode of determining the proportional allocation from the federation account to both the state and local governments' have continued unabated.

Nwokedi (2001: 145) observed that there is no doubt that under the existing 1999 constitution, the powers and revenue accruing to the federal government are awesome and completely undermines the doctrine of true federalism. The present constitution is akin to the past military regimes which created an all powerful federal government with lion share of the revenue accruing to the federal government while the powers of the states were drastically diminished and financially weakened (Osaghae, 1998), to the extent that none of them could survive or discharge its constitutional responsibilities adequately under the existing constitutional and revenue sharing arrangement.

## Conclusion

In the United States, there is no formal machinery responsible for an overview of intergovernmental fiscal relations. In Switzerland, intergovernmental meetings of finance ministers work out proposals for an equalization formula. In Germany, the unique role of the Bundesrat in intergovernmental matters makes it closer to the Australian example.

In Canada, the emphasis has been diversity and provincial autonomy while in Australia; the emphasis has

been the equalization of state resources and upon central paramouncy. Australia serves an example of the extent to which the redistribution of resources and the effort to provide uniform services may be a unifying force. On the other hand, the reaction in Canada against over centralization illustrates the requirement of substantial financial autonomy if states or province are to preserve their political autonomy.

In view of the foregoing comparative analysis, a synthesis of Nigeria intergovernmental fiscal relations during colonial and post colonial period indicate the dominance of adhoc revenue commission until the establishment of an incorporation of the revenue mobilization allocation and fiscal commission into the 1999 constitution. While Adebayo Adedeji supports a constitutionally established revenue commission like the Australian Commonwealth Grants commission, Ralph Nwokedi prefers an adhoc body of experts empanelled periodically (preferably every five years) to prepare a report and recommendation on revenue allocation formula, which should be submitted to a high powered revenue review committee.

Nwokedi maintained that the committee should be composed of equal accredited representatives of the six geo-political zones, under the Chairmanship of the Vice-president of the Federal Republic. The conclusion and recommendations of the committee, based on the expert report shall then be tabled before the National Council of States which for this purpose, shall include the President of the Senate and the Speaker of the House of Representatives and shall be presided over by the President of the Federal Republic. The council's deliberations and conclusion shall form the basis of revenue allocation procedure to be established under the constitution.

## RECOMMENDATIONS

The following recommendations are hereby presented:

- 1) To optimize political, security and socio-economic benefits of the coming together of the multifarious Nigeria ethnic nationalities in a federation, the authoritarian fiscal centralism that have been promoted and institutionalized by successive military regimes since 1966 has to be revised and replaced by an ethnocentric (state) and more democratic fiscal federalism.
- 2) The revenue base of the states should be broadened by giving them ownership and more control over productive natural resources, that is, their exploitation and utilization.
- 3) Tax revenue available to the states is presently limited due to the encroachment of the central government on source that ordinarily should accrue to the state.
- 4) The federation account should be operated by a body made up of states representative rather than its present

dominance by federal appointed officials who use it more as patronage than as instrument for promoting even development.

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