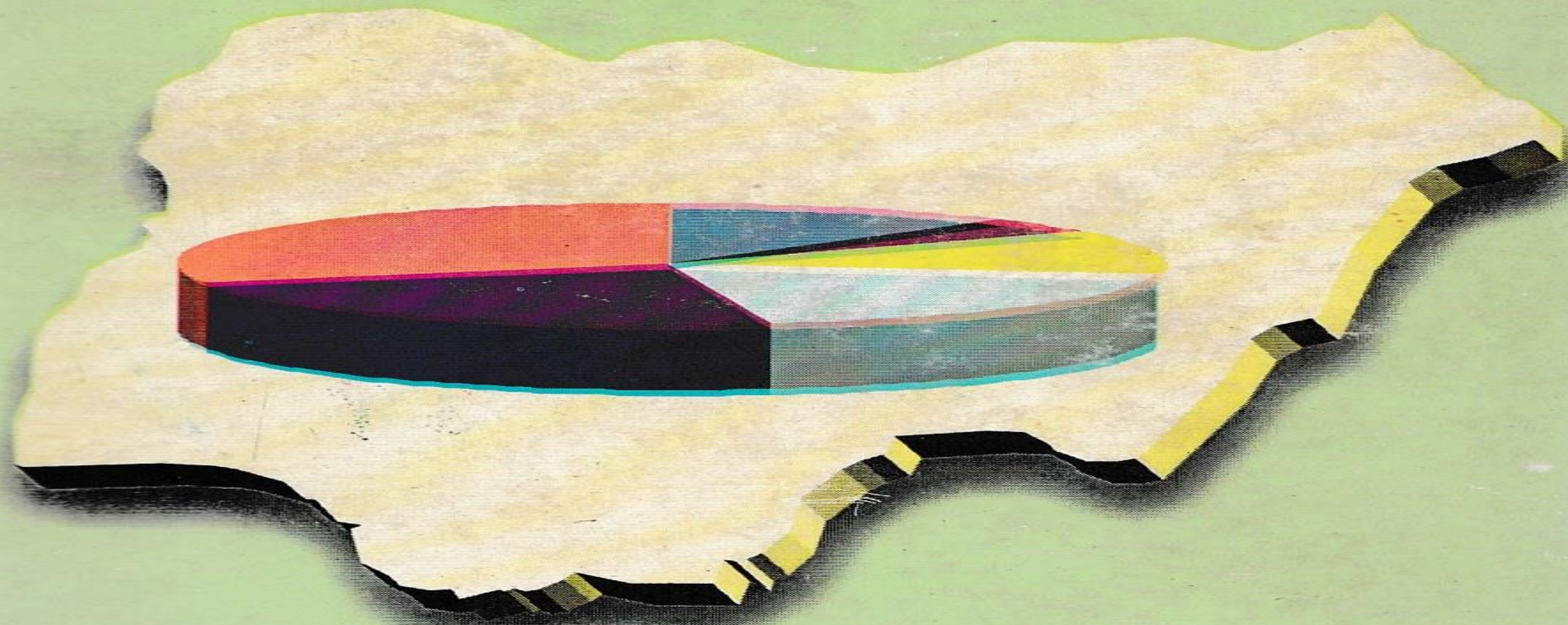
Issues in Fiscal Federalism and Revenue Allocation in Nigeria



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CHAPTER SEVEN

Revenue Allocation in Nigeria during the Military Era

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INTRODUCTION

Nigeria is about eighty-five years old as a political entity and thirty-nine years old as an independent nation. For about forty years (1914–1954), Nigeria operated a unitary state characterized by a central government that was very powerful in fiscal matters, even though the 1946 Richards Constitution introduced some elements of federalism by giving recognition to the regions. Nigeria formally changed to federalism with the adoption of the 1954 Federal Constitution and has since maintained it through the various constitutions (1963, 1979 and 1999 constitutions) and decrees promulgated by military governments. Federalism is simply a system in which two or more tiers and several units possessing varying degrees of autonomy exist together and have certain-administrative and legal properties in common (Ayoade, 1988). The legal basis of federalism is the constitution, which spells out the functions and responsibilities of the various units of government and the means for performing such functions. From one central government and three regions (North, East and West) in 1954,

Nigerian federalism has metamorphosed into the present one central government (federal government), thirty-six states plus the Federal Capital Territory (FCT), and seven hundred and seventy-four (774) local government areas, as shown in Table 1. This was made possible by the military that ruled Nigeria for twenty-nine out of her thirty-nine years as an independent nation.

One feature of a federal system of government is fiscal federalism. This refers to disposition of tax powers, retention of revenue and method adopted for sharing centrally collected revenue in accordance with the constitutional responsibilities of all the levels of government (Osakwe, 1999). Ideally, fiscal federalism consists of three elements, namely, the assignment of responsibilities and functions to the different tiers of government, the assignment of tax powers and the allocation of the centrally collected revenue to the various tiers of government, that is, revenue allocation. The first element is a constitutional matter and the present situation in Nigeria is presented in Table 2. The assignment of tax powers is often done based on either the criterion of administrative efficiency or fiscal independence. According to Mbanefoh (1993), efficiency criterion demands that a tax is assigned to that level of government that will administer it efficiently at minimum cost while fiscal independence requires that each level of government should, as far as possible, raise adequate resources from the revenue sources assigned to it to meet its need and responsibilities.

In Nigeria, the weighting has always been tilted in favour of the efficiency, criterion resulting in the jurisdiction and right to revenue of important taxes being vested in the federal government as shown in Table 3. This arrangement has led to a situation where the bulk of the revenue is centrally collected for distribution among the three tiers of government.

TABLE 1: EVOLUTION OF NIGERIA'S FEDERAL STRUCTURE, 1914–1996

Date	Northern Nigeria	Southern Nigeria	Total	Enabling Laws
1914	1 Protectorate	1 Protectorate	2	
1933-1939	1 Group of provinces	2 Groups of Provinces (East and West)	3	Native, Authority Ordinance
1946	1 Region (Northern Region) 12 Provinces 39 Divisions	2 Regions (East & West) 11 Provinces 44 Divisions	3 23 83	Notice No. 43 of 1933 Notice No. 1725 of 1938 Notice No. 17 of 1943
1963	1 Region (Northern Region) 14 Provinces 41 Divisions	3 Regions (East, West and Mid-west) 21 Provinces 55 Divisions	4 35 96	The Mid-West Region Transitional Provisional Act No. 19, 1963
1967	10 States 41 Divisions	6 States 55 Divisions	12 96	State (Creation and Transitional Provisional) Decree 14, 1967
1976	10 States 152 Local Government Areas	9 States 148 Local Government Areas	19 300	State (Creation and Transitional Provisional) Decree 14, 1976

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Table 1 continued

Date	Northern Nigeria	Southern Nigeria	Total	Enabling Laws
1987-1990	11 States 240 Local Government Areas	10 States 208 Local Government Areas	21 448	State (Creation and Transitional Provisional) Decree 1987 & 1989
1991	17 States (including FCT) 320 Local Government Areas	14 States 273 Local Government Areas	31 595	State (Creation and Transitional Provisional) Decree 37, 1991
1996-1999	20 States (including FCT) 419 Local Government Areas	17 States (including FCT) 355 Local Government Areas	37 774	State (Creation and Transitional Provisional) Decree 36, 1996 & 1999 Constitution

Note: Provinces created between 1933 and 1963 now have the status of states while divisions created in the same period now have the status of local governments.

Sources: *Tell* magazine, March 29, 1999 (p.50) and *1999 Federal Constitution* (pp. 125–129)

TABLE 2: ALLOCATION OF RESPONSIBILITIES TO THE THREE TIERS OF GOVERNMENT IN NIGERIA

Responsible level of Government	Expenditure Category
Federal government only	Defence, military (army, Navy, Air force), Foreign Affairs, International Trade including export marketing, Currency, Banking, borrowing, exchange control, Use of water resources, Shipping, Federal Trunk Roads, Elections, Aviation, Railways, Postal service, Police and other Security services, Regulation of Labour, Inter-state commerce, Telecommunications, Immigration, Mines and Minerals, Nuclear Energy, Citizenship and Naturalization rights, Social Security, Insurance, National Statistical system (census, birth, death, etc.) Guidelines and basis for minimum education, Business Registration, Meteorology, National Parks, Price control.
Federal/ State Governments shared	Health, Social welfare, Education (Post primary/technology), Culture, Antiquities, Monuments, Archives, Statistics, Stamp duties, Collection of taxes, Commerce, Industry, Electricity (Generation, Transmission, Distribution), Research Surveys.
State Government only	Residual power i.e. any subject not assigned to federal or local v level by the Constitution.
Local Governments	Economic Planning and Development, health Services, land use, Control and regulation of advertisements, Pets, Small business markets, Public conveniences, Social welfare, Sewage and Refuse Disposal, registration of Births, Deaths, Marriages, Primary, Adult and Vocational Education, Development of Agriculture and Natural resources.

Source: 1999 Nigerian Constitution.

Perhaps the most controversial of the three elements of fiscal federalism in the Nigerian context is revenue allocation or sharing among the three tiers of government. As observed by the Political Bureau, revenue allocation:

> has been one of the most contentious and controversial issues in the nation's political life. So contentious that none of the formulae evolved by a commission or by decree under different regimes since 1946 has gained general acceptability among the component units of the country. Indeed, the issue, like a recurring decimal, has painfully remained the first problem that nearly every incoming regime has to grapple with since independence . . . (Report of the Political Bureau 1987:169, cited in Emenuga, 1993:81).

The major issue has always been the principles, that is, rules or factors to be applied and the weights or percentages to be assigned to the identified factors in sharing the revenue among the federal, state and local governments (vertical allocation) and among the individual state and local governments (horizontal allocation). Nevertheless revenue allocation has remained an important instrument used not only to enhance economic growth and development but also to promote efficiency, equity and national unity, and to minimize inter- governmental tensions (Anyanwu, 1995).

TABLE 3: NIGERIA'S MAJOR TAX JURISDICTIONS AND RIGHT TO REVENUE (1999)

	Types of Tax	Jurisdiction[1]		Right to Revenue
		Law	Administration and Collection	
1.	Import duties	Federal	Federal	Federation Account
2.	Excise duties	Federal	Federal	Federation Account
3.	Export duties	Federal	Federal	Federation Account
4.	Mining rents and royalties	Federal	Federal	Federation Account
5.	Petroleum profit tax	Federal	Federal	Federation Account
6.	Companies income tax	Federal	Federal	Federation Account
7.	Capital gains tax	Federal	Federal/States	States
8.	Personal income tax (other than those listed in 9)	Federal	States	States
9.	Personal income tax: armed forces, external affairs officers, non-residents, residents of the Federal capital Territory and Nigerian Police Force.	Federal	Federal	Federal

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Table 3 continued

	Types of Tax	Jurisdiction[1]		Right to Revenue
		Law	Administration and Collection	
10.	Licenses fees on television and wireless radio.	Federal	Local	Local
11.	Stamp duties.	Federal	Federal/States	States
12.	Capital transfer tax (CTT)	Federal	States	States
13.	Value added tax	Federal	Federal/States	Federal/States
14.	Pools betting and other betting taxes.	States	States	States
15.	Motor vehicle and drivers' licenses.	States	States	States
16.	Entertainment tax	States	States	States
17.	Land registration and survey fees.	States	States	States/Local
18.	Property taxes and rating.	States	Local	Local
19	Market and trading license and fees.	States	Local	Local

Note: The peculiar status of the Federal Capital Territory has not been taken into consideration in this table.

Source: Anyanwu (1999)

The main objective of this paper is to discuss revenue allocation in Nigeria during the period of military rule (1966–1979 and 1984–1999). The emphasis is on the various commissions, the principles and formulae suggested and applied and the implications of such arrangements for economic growth, equity, national unity and inter-governmental tensions. The rest of the paper is organized as follows: in section 2 we examine briefly theoretical issues bordering on the role of government, federation and inter-governmental transfer. This is followed in section 3 by a discussion on revenue allocation before the advent of the military. Nigeria's experience with revenue allocation during the military rule is discussed in section 4. The implication of revenue allocation efforts of the military is examined in section 5. The paper is concluded in section 6.

2. Theoretical Issues

From the economic standpoint, governments generally exist to correct the failures of the free market, to allocate resources efficiently and ensure equitable distribution of income, as well as to ensure economic stability and growth. The major functions of governments, therefore, include resources allocation and distribution and economic stabilization. Taiwo (1999) maintains that these roles are performed with the presumption that they would improve or maximize social welfare of the citizens. This holds irrespective of whether there is a unitary or federal system of government.

Ramphal (1979), however, justifies federalism on political, economic and socio-cultural grounds. It is a process of unifying power within a cluster of states and decentralizing power within the unified state, given the philosophy of unity in diversity in a spectrum beyond the extremes. The extremes, according to Agiobenebo (1999), refers on one hand, to a cluster of states without

any systematic arrangements for unified action and, on the other, the fully unified state in which sovereignty is indivisible. Similarly, Okigbo (1965) and Mbanefoh (1993) define fiscal federalism as the existence of more than one level of government in one country, each with different expenditure responsibilities and taxing powers. Boadway (1979) calls this "economics of multilevel/multiunit" (political system), maintaining that the public sector is stratified into various tiers or levels of government, each having a different set of responsibilities in terms of expenditure and taxing powers.

In a federal setting inter-governmental transfer or allocation of revenue can be classified as either non-matching or selective-matching. Non-matching grants may be selective or general (conditional or non-conditional). If the federal government, for instance, makes available a specific amount of funds to the local governments for a specific purpose and expects the latter not to match the funds, then such transfer of funds is regarded as a selective non-matching allocation. Such allocation may be intended to subsidize expenditures to which the higher level of government assigns a high priority (Shah, 1991). In the case of non-matching unconditional grants, no constraints are imposed on how to spend the funds by the recipient level of government. Selective matching grants require that the grant be spent for specific purpose and the recipient is expected to undertake some degree of matching of such funds. This is otherwise referred to as cost-sharing programmes.

Boadway (1990) and Shah (1983) have also justified revenue transfers from federal to local levels of governments on political, economic and social grounds. The economic justifications for revenue allocation include efficiency, equity and stabilization objectives. Boadway (1990) maintains that the application of efficiency and equity principles suggests four main economic reasons for revenue allocation. Inter-governmental transfer can be used to: (i) increase the efficiency with which public goods and services are provided; (ii) close fiscal gap between means and expenditure needs at the state and local levels; (iii) achieve minimum standard of services across an economy, especially in a federal structure; and (iv) redress differential net fiscal benefits across states and local government areas. With reference to item (iv), some states and local government areas may be better endowed than others with natural resources and thus have better access to an enlarged revenue base.

3. Revenue Allocation before the Military

Historically, revenue allocation started in Nigeria in 1946 with the adoption of the Richard Constitution, which did not only grant autonomy to the regions but also shared responsibilities between the national and regional (North, East and West) governments. In order to determine how much revenue should be made available to the regions to facilitate the execution of their constitutional responsibilities, the Phillipson Commission was set up in 1946 as shown in Table 4. The financial arrangement proposed by the commission consisted of "declared revenues" that were locally collected by the regions from such sources as direct taxes, mining rents, receipts from licence, etc., and "non-declared" revenues that were collected by the central government from four main sources, namely, export duties, company tax, and import and excise duties. It is the proceeds of the non-declared revenues, after provisions had been made for central government expenditures, that was to be shared among the regions on the basis of derivation, even development, and continuity of government services. This arrangement resulted in an average vertical revenue allocation of 84 percent to the central government and 16 percent to the regions between 1948 and 1952 (see Table 5).

The introduction of a quasi-federal system of government by the Mcpherson Constitution in 1951 necessitated the 1951 Hicks–Phillipson Commission. In addition to derivation, the commission included need and national interest as the basis for horizontal revenue allocation among the regions. The commission also provided for fiscal autonomy of the regions and special grants to the regions for education, police and capitation. Between 1952 and 1954 when the commission's recommendation was operational, about 72.5 percent of the revenue went to the central government while 27.5 percent went to the regions.

The next commission, the Chick Commission of 1953, emphasized derivation and fiscal autonomy as the two relevant criteria for revenue allocation. It also emphasized increased share for the regions in total revenue to the centre. The derivation principle applied fully to the important revenues (import duties on motor spirits, excise and export duties and mining rents and royalties), and favoured the North and West greatly.

Between 1954/55 and 1958/59 when the commission's recommendation was used, an average of 57.7 percent of revenue went to the central government and 42.3 percent to the regions.

Following the objections raised by the Northern and Eastern regions on the emphasis placed on derivation, the Raisman Commission of 1958 introduced the Distributable Pool Account (DPA) into which 70 percent of mining rents and royalties and 30 percent of the revenue from other sources like import duties were paid and distributed to the regions based mostly on the principles of need and balanced development. The commission also retained the principles of derivation and fiscal autonomy. In the case of revenue from oil, the Raisman Commission approved a sharing formula of 50 percent, 20 percent and 30 percent for the mineral region, federal government and DPA. Also a ratio of 70 percent to the federal government, and 30 percent to DPA was recommended for all revenues from import duties other than those on tobacco, motor spirits, beer, wines and potable spirits which were to be retained by the federal government. This arrangement, which remained in force between 1959 and 1964, resulted in a revenue sharing arrangement of 61.94 percent to the federal government and 38.06 percent to the regions, on the average.

TABLE 4: PRE-MILITARY REVENUE ALLOCATION COMMISSIONS PRINCIPLES AND FORMULAE 1946–66

Commission/ Committee	**Recommended principles**	**Other Basic features of Recommendations/Formulae**
1. Phillipson, 1946	(i) Derivation (ii) Even progress	Balance after 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 grant capitation, education, and police.
3. Chick, 1953	(i)Derivation (ii) Fiscal autonomy	Bulk of revenues from import duties and excises to the regions on basis of consumption and derivation.
4. Raisman, 1958	(i)Derivation (ii) Fiscal autonomy (iii) Balanced development (iv) Need	Proportions of specified revenues distributed on the basis of derivation. Creation of Distributable Pool Account (DPA) with North, 40%; West, 31%; East, 24% and Southern Cameroons, 5%.
5. Binns, 1964	Same as (4) above plus financial comparability.	DPA relative shares slightly altered; North 42%; East, 30%; West, 20% and Mid-West, 8%.

Source: Anyanwu (1999)

TABLE 5: REVENUE OF FEDERAL AND REGIONAL GOVERNMENTS, 1948–1967

Reports	**Federally Collected Revenue**	**Nominal Shares of Central Revenue (₦)**		**Shares of Central Revenue in Percentages**	
		Federally retained	Allocated to Regions	Federal	Regions
1. Phillipson	44.0	36.2	7.8	82.3	17.7
	57.0	48.2	8.8	84.5	15.5
	61.0	50.6	10.2	83.0	17.0
	95.6	83.0	12.6	86.8	13.2
2. Hicks--Phillipson	96.0	68.4	27.6	71.3	28.7
	112.6	83.0	29.6	73.7	26.3
3. Chick	122.0	60.6	61.4	49.7	50.3
	119.6	64.4	55.2	53.8	46.2
	139.8	85.4	54.4	61.1	38.9
	141.8	87.4	54.4	61.6	38.4
	154.6	96.4	58.2	62.3	37.7
4. Raisman	177.6	105.8	71.8	59.6	40.4
	223.8	143.2	80.6	64.0	36.0
	229.0	141.2	87.7	61.7	38.3
	230.6	144.0	86.6	62.4	37.6
	249.2	154.4	94.8	62.0	38.0
5. Binns	299.2	177.8	121.4	59.4	40.6
	321.8	190.6	131.2	59.2	40.8
	339.2	198.0	141.2	58.4	41.6

Source: Osakwe1(999)

In 1961, South Cameroons left the federation and by 1963, the Mid-West region was created. These, coupled with the adoption of the 1963 Federal Constitution, which provided for fiscal review every five years, led to the setting up of the Binns Commission in 1964. The commission increased mining rents and royalties paid to the DPA from 30 percent to 35 percent. The DPA revenue was distributed as follows: North (42 percent), East (30 percent), West (20 percent) and Mid-West (8 percent). For the two years the Binns Commission's recommendation was operational, an average of 59.3 percent of the federally collected revenue went to the federal government and 40.7 percent went to the regions. However, between 1948 and 1966, the federal government received an average of 67 percent of the federally collected revenue, leaving the remaining 33 percent for the regions.

4. Revenue Allocation under the Military 1966–1979

The military first entered Nigeria's political scene in 1966 following the military coup led by Major Kaduna Nzogwu. The promulgation of Decree No. 1 of 1966 in reality effectively liquidated true federalism in Nigeria. Since then, especially during the first phase of the military rule, which ended in 1979, revenue allocation was based on ad hoc arrangements (Table 6) and influenced by what Ehwarieme (1999:65) called the "superordinate–subordinate relationship between the Federal Government and the other units".

It all began with the Constitution (Financial Provisions) Decree No.15 of May 1967 that divided the former four regions into twelve states. Accordingly, the DPA was re-allocated to reflect the 12-states structure and the revenue was shared among the new states as follows: East Central (17 percent); Lagos (2 percent); Mid-West (8 percent); the six Northern states (7 percent each); Southern Eastern (7.5 percent); Rivers (5 percent) and West (18 percent). The allocation among the states was not based on any uniform principle nor was it done on the basis of the principles (derivation, population, need and even development, etc.) used previously in allocating revenue among the regions. In that year, the federal government retained about 58.4 percent of the federally collected revenue while the regions/states took the remaining 41.6 percent.

TABLE 6: REVENUE ALLOCATION COMMISSIONS, PRINCIPLES AND FORMULAE DURING THE MILITARY ERA, 1966–1999

Commission/ Committee	Recommendation principles	Other Basic features of Recommendations/ Formulae
Decree No. 15, 1967	(i) Derivation (ii) Fiscal autonomy (iii) Balanced Development (iv) Need (v) Financial Comparability	Regional proportional shares of the DPA split among the 12 new states. 6 Northern states received 7% each. East and Western states shared in accordance with relative populations.
Dina, 1968	(i) Even development (ii) Derivation (iv) Need (v) Minimum responsibilities of government	Special Grants Accounts introduced, recommended the establishment of a permanent Planning and fiscal Commission, recommendations rejected.
Decree No. 13, 1970	(i) Population (50%) (ii) Equity of States (50%)	Export Duties to states reduced from 100% to 60%; duty on fuel to States reduced from 100% to 50%; mining rents and royalties to States reduced from 50% to 45%.
Decree No. 9, 1971	Same as (3) above	Transferred rents and royalties of off-shore petroleum mines from the states to the federal Government.

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Table 6 continued

Commission/ Committee	Recommendation principles	Other Basic features of Recommendations/ Formulae
Decree No. 6, 1975	Same as above	On-shore mining rents and royalties to State reduced from 45 to 20 percent, remaining 80% 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.
6. Aboyade, 1977	(i) Equity of Access 0.52% (ii) National Min. Standards 0.22% (iii) Absorptive capacity 0.22% (iv) Independent revenue 0.18% (v) Fiscal efficiency 0.15%	Replaced DPA with Federation Account. Fixed proportional shares out of this account between Federal, 5%; States 30%, local governments, 10% and special fund 3%. State Joint Accounts and local governments Joint Accounts created.
7. Okigbo, 1980	(i) Population 40% (ii) National Minimum Standard 40% (iii) Social development 15% (iv) Internal revenue efforts 5%	Federation Account to be shared: Federal Government, 53% States Governments 30%; Local Governments, 10%; Special Fund, 7%.
8. 1981 Act	Same as (7) above	Federation Account shared; Federal Government, 55% States Governments 30.5%; Local Governments, 10%; Ecological problems 1%; Development of mineral producing areas, 1.5%; Derivation, 2%.

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Table 6 continued

Commission/ Committee	Recommendation principles	Other Basic features of Recommendations/ Formulae
Decree No. 36, 1984	Same as (8) above but social development (primary school enrolment: direct, 11.25%; inverse, 3.75%).	Federation Account shared: Federal Government, 55% States Governments 32.5%; (out which 2% went for derivation); Local Governments, 10%; Ecological problems 1%; Development of mineral producing areas, 1.5%; (Special Funds: 2.5%).
10. Danjuma, 1989	(i) Equity of States 40% (ii) Population 30% (iii) Social development 10% (iv) Internal revenue effort 20%	Federation Account to be shared: Federal Government, 47% States Governments 30%; Local Governments, 15%; Special Funds: (8%); FCT, (1%), Stabilization, 0.5%; Savings, 2%; Derivation, 2%; Development of Oil-producing Areas 1.5%; Development of Non-oil Mineral Producing Areas, 0.5%; General Ecology, 0.5%.
11. AFRC Approval, Jan. 1990	(i) Equity of States 40% (ii) Population 30% (iii) Social development 10% (Education 4%; Health 3%; Water 3%) (iv) Landmass and terrain 10% (v) Internal revenue effort 20%	Federation Account shared: Federal Government, 50% States Governments 30%; Local Governments, 15%; Special Funds: (5%); FCT, 1%, Stabilization, 0.5%; Derivation, 1%; Development of Oil-producing Areas: 1.5%; General Ecology, 1%.

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Table 6 continued

Commission/ Committee	Recommendation principles	Other Basic features of Recommendations/ Formulae
12. AFRC Approval, Jan. 1992	Same as (11) above.	Same as (11) above except States Governments (25%); and Local Governments, (20%).
13. AFRC Approval, June, 1990	Same as (12) above.	Federation Account shared: Federal Government, 48.5% States Governments 24%; Local Governments, (20%); Special Funds: (7.5%); FCT, 1%, Stabilization, 0.5%; Derivation, 1%; Development of Oil-producing Areas: 3%; General Ecology, 2%.

Sources: Anyanwu (1995) and National Revenue Mobilization, Allocation and Fiscal Commission Reports.

The creation of the twelve states and the civil war that was going on then necessitated the setting up of the Dina Committee in 1968. This committee renamed the DPA the states joint account (SJA) into which 70 percent of royalties from the on-shore mining was to be paid and the balance allocated as follows: federal government (15 percent); states of origin (10 percent) and special grants (5 percent). The SJA was to be shared on the basis of need, minimum responsibility of state government derivation and balanced development. It also recommended the setting up of a permanent fiscal commission.

The rejection of the Dina Committee report by the federal military government resulted in the repeal of Decree No. 15 of 1967 and the promulgation of the Constitution (Distributable Pool Account) Decree No. 13 of 1970. The decree, which took effect from April 1, 1969, emphasized the sharing of DPA on the basis of population (50 percent) and equality of states (50 percent). Furthermore, the share of states from export fell from 100 percent to 60 percent; that of duties on motor fuel and excise duties fell from 100 to 50 percent while the states' share of mining rent was reduced from 50 to 45 percent. The overall result was the general increase in the federal government share of the federally collected revenue, which averaged 57.5 percent between 1968 and 1970, leaving 42.5 percent for the states. These changes might have been informed by the financial requirements to execute the civil war and the post war reconstruction.

Further changes in revenue allocation were effected with promulgation of Decree No. 9 of 1971. By this decree 100 percent of off-shore mining rent and royalties was given to the federal government, and Decree N0. 51 of 1972 also gave the tax paid by the armed forces personnel, external affairs officers and pensioners oversees to the federal government. Yet another decree (Decree No. 6 of 1975), which took effect from April 1 1975, stipulated that 80 percent of on-shore mining rents and royalties, 100 percent of duties on motor spirits, tobacco, hides and skins; 35 percent of import duties and 50 percent of excise duties, be channelled into the DPA/SJA, while 20 percent of on-shore mining rents and royalties should go to the states of origin on the basis of derivation. The DPA was shared among the states on the basis of population (50 percent) and equality of states (50 percent). This formula was in use until 1979.

An important feature of the revenue allocation under this phase of military rule was the abolition of the constitutional arrangement as the basis for revenue allocation. In addition to determining the logical time frame for reviewing and sharing of revenues among the various tiers of government in the federation, the federal military government also retained all the revenue from the petroleum profit tax (PPT) and company tax, 65 percent of import duties (excluding tobacco, alcohol, motor spirits and diesel) and 50 percent of excise tax. Again the derivation principle as applied to sharing of oil and non-oil revenue was greatly de-emphasized. This revenue allocation arrangement gave the federal military government between 71.7 percent and 85.8 percent of the federally collected revenue between 1971 and 1979 as shown in Table 7. The average share of the Federation Account going to the federal government between 1964 and 1979 was 73 percent. In fact, at the end of military rule in 1979, the existing revenue allocation formula was 75 percent of total revenue to the federal government, 22 percent to States and 3 percent to the local governments. The transfer of revenue from the states to the federal military government witnessed within the first phase of military rule and especially since 1976 was due to some socio-political and economic changes which added more responsibilities to the federal government. Some of the changes included the introduction of Universal Primary Education (UPE) in 1976, and the subsequent transfer of primary education to the federal government; the take over of all universities by the federal government; local government reforms of 1976 which in addition to creating more local government areas, also recognized them as

the third tier of government; and the creation of more seven states, bringing the number to nineteen in 1976.

TABLE 7: REVENUE OF FEDERAL AND STATE GOVERNMENTS, 1968–1980

Years	Federally Collected Revenue (₦ M)	Nominal shares of Federally Collected Revenue		Shares of Federally Collected Revenue in percentages	
		Federal (₦ M)	States (₦ M)	Federal	States
1968	284.8	146.3	138.5	51.4	48.6
1969	378.4	240.0	138.4	63.4	36.6
1970	633.2	365.6	267.8	57.7	42.3
1971	1,169.0	838.2	330.8	71.7	28.3
1972	1,404.8	1,073.8	331.0	76.4	23.6
1973	1,695.3	1,388.0	302.3	81.9	18.1
1974	4,537.0	3,893.6	643.4	85.8	14.2
1975	5,514.7	4,465.6	1,049.1	81.0	19.0
1976	6,765.9	5,121.5	1,644.8	75.7	24.3
1977	8,042.4	6,469.5	1,572.5	80.4	19.6
1978	7,371.0	6,131.0	1,240.0	83.2	16.8
1979	10,912.4	8,868.4	2,044.0	81.3	18.7
1980	15,234.0	12,138.7	33,095.3	79.7	20.3

Source: Osakwe, 1999.

The military also made an attempt to provide a lasting and more acceptable revenue allocation formula for the in-coming civilian administration of 1979. This culminated in the establishment of Aboyade Committee in 1977. The recommendations of the committee as shown in Table 6, was rejected because it was considered too technical.

The 1984–1999 Period: Second Phase of Military Regime

The second coming of the military on December 31, 1983, resulted in a new revenue allocation arrangement. During the brief period of civilian administration prior to this time, revenue allocation was based on the provisions of the 1981 revenue allocation act. The act provided for the allocation of funds in the Federation Account as follows: federal (55 percent), states (30.5 percent), local government (10 percent) and special funds (4.5 percent). The states' share of 30.5 percent was allocated to all the states on the basis of the following criteria: population (40 percent), national minimum standard (40 percent), social development (15 percent), and internal revenue efforts (15 percent). The 4.5 percent special fund was allocated as follows: federal fund for ecological problems in all states (1 percent), allocations to mineral-producing areas in proportion to value of mineral extracted (2 percent) and federal fund for the development of mineral-producing areas (1.5 percent). The sharing of revenue due to the local governments among them was done using the same factors as for the states.

The Revenue (Federation Account, etc.) Amendment Decree No. 36 of 1984 promulgated by the military modified the 1981 Act by increasing states' share of the Federation Account to 32.5 percent out of which 2 percent went for derivation. The special funds, which was reduced to 2.5 percent, consisted of fund for ecological problem (1 percent) and fund for the development of mineral-producing areas (1.5 percent). The states' and local governments' allocations were shared among them based on the same criteria as those in the 1981 Act, except that the social development criterion of 15 percent was based on direct primary school enrolment (11.25 percent) and inverse enrolment (3.75 percent).

There was further modification of the revenue allocation principle and formula in 1990 following the approval by the Armed Forces Ruling Council (AFRC) of the recommendations of the National Revenue Mobilization, Allocation and Fiscal Commission (NRMAFC). The commission was set up by Decree No. 49 of 1989 as a permanent body to oversee revenue sharing arrangements, especially the mobilization and sharing of revenue to ensure fiscal efficiency. Under this arrangement the Federation Account was shared as follows: federal (50 percent), states (30 percent), local government (15 percent), and special funds (5 percent). From the special funds, one percent went for the development of the Federal Capital Territory; 0.5 percent was for stabilization; derivation received one percent while the development of oil mineral-producing areas and general ecology received 1.5 percent and one percent, respectively. The respective states' and local governments' shares of the Federation Account were distributed on the basis of equality of states (or local government areas) (40 percent), population (30 percent), social development (10 percent), landmass and terrain (10 percent) and internal revenue (10 percent).

The social development factor was made up of education (4 percent), health (3 percent), and water (3 percent). These horizontal revenue allocation principles and formula have remained unchanged till date. However, few modifications in the vertical allocation formula were made. The first occurred in January 1992 following the transfer of the management and funding of primary education to the local governments with effect from January 1991. Based on the recommendations of NRMAFC that 5 percent of the Federation Account be set aside for funding primary education in Nigeria, the AFRC approved in January 1992 the increase of the local government's share of the Federation Account from 15 percent to 20 percent and reduction of the states' share from 30 percent to 25 percent. The federal government's share was, however, not touched. Yet in June of the same year, the AFRC approved further

TABLE 8: REVENUE OF FEDERAL, STATE AND LOCAL GOVERNMENTS, 1981–1997

Years	Federally collected revenue (N million)	Nominal shares of Federally Collected Revenue			Shares of Federally Collected Revenue in percentages			
		Federal	States	Local	Federal	States	Local	Other federal A/cs
	1	2	3	4	5	6	7	8
1981	12.18	7.26	3.83	1.09	59.7	31.4	8.9	..
1982	10.62	6.28	3.31	1.03	58.8	31.5	9.7	..
1983	10.57	6.27	3.24	1.00	59.7	30.8	9.5	..
1984	11.19	7.27	2.87	1.06	65.0	25.6	9.4	..
1985	14.61	9.64	3.34	1.33	66.0	22.9	9.1	2.0
1986	12.30	7.97	2.92	1.17	64.8	23.7	9.5	2.0
1987	25.10	16.13	6.32	2.12	64.3	25.2	8.4	2.1
1988	27.96	15.53	8.18	2.73	55.5	29.3	9.8	5.4
1989	47.80	25.89	9.90	3.40	54.2	20.7	7.1	18.0
1990	85.25	38.15	15.94	7.68	44.8	18.7	9.0	27.5
1991	101.99	30.83	19.74	10.20	30.2	19.4	10.0	40.4
1992	190.45	53.26	25.50	15.72	28.0	12.9	8.3	50.8
1993	192.77	83.49	29.36	18.32	44.3	15.2	9.5	31.9
1994	201.91	90.62	34.05	17.32	44.9	16.9	8.5	29.7
1995	459.99	249.80	45.02	21.43	54.3	9.8	4.7	31.2
1996	520.19	325.14	52.92	21.15	62.5	10.2	4.1	23.2
1997	582.81	351.26	64.81	27.61	60.3	11.1	4.7	23.9

Source: (i) Osakwe, 1999.
(ii) CBN *Annual Report and Statements of Accounts*, December 1997.

modification of the formula for sharing revenue accruing to the Federation Account. This formula, which was in force up to the end of military rule in May 29, 1999 is as follows: federal government (48.9 percent), state governments (24 percent), local governments (20 percent) and special fund (7.5 percent). The special fund was also shared as follows: Federal Capital Territory (1 percent), stabilization (0.5 percent), derivation (1 percent), development of oil mineral-producing areas (3 percent) and general ecology (2 percent).

One important development during the military era was the introduction of value added tax (VAT) in 1993. VAT literally replaced sales tax, which was administered by the state governments. Under this arrangement VAT proceeds was paid into VAT pool account and distributed among the federal, state and local governments. The sharing formula has changed over time as shown in Table 9.

TABLE 9: VAT ALLOCATION FORMULA, 1994–1999

Year	Federal	State	Local Government
1994	20	80	—
1995 Jan. – March	50	25	25
1995 April – Dec	40	35	25
1996	35	40	25
1997	35	40	25
1998	25	45	30
1999	15	50	35

Sources: CBN *Annual Report and Statement of Accounts* (various issues) and Federal Budgets, 1996–1999.

In addition, successive military administrations between 1985 and 1998 increasingly sidelined revenue allocation arrangements by introducing *ad hoc* measures and projects that allowed them to create special accounts outside the Federation Account for their own use. Such funds/projects included the National Economic Recovery Fund (NERFUND) created in 1986 but phased out in 1989, Stabilization Account created in 1989, National Priority Projects (1995), AFEM Surplus Account which was operated by the federal government alone for two years, NNPC Priority Projects, Joint Ventures Cash Calls Payments Account (JVC) and Petroleum (Special) Trust Fund (PTF). These were drawn, in addition to funds, directly from the Federation Account since 1995 for external debt servicing (before actual allocation according to the prevailing principles and formulae were made).

The overall consequence of the forgoing statutory and special arrangements is a continual increase in the share of federally collected revenue accruing to the federal government. For instance, between 1984 and 1997 the federal government received about 73.4 percent of total federally collected revenue. This was made up of 52.8 percent from the Federation Account and 20.6 percent from other federal accounts (Table 8). The state and local governments received 18.6 percent and 8 percent respectively of the total federally collected revenue. As shown in Table 10 there was a considerable decline in the revenue paid into the Federation Account, especially from 1990, apparently because of the existence of other accounts.

TABLE 10: FEDERATION ACCOUNT AS PERCENTAGE OF FEDERALLY COLLECTED REVENUE, 1970–1997

Year	Total Federally Collected Revenue (₦ million)	Federation Account (₦ million)	Federation Account as Percentage of Federally Collected Revenue
1970	634.0	582.4	91.86
1971	1168.8	1064.6	91.43
1972	1105.1	1325.8	94.36
1973	1695.3	1613	95.16
1974	4537.4	4371.0	96.33
1975	5514.7	5294.1	96.00
1976	6765.9	6470.1	95.62
1977	8042.2	7702.1	95.78
1978	7371.0	6781.4	92.00
1979	10912.4	10599.8	97.14
1980	15233.5	14746.5	96.80
1981	13290.5	10182.8	76.62
1982	11433.7	9884.9	86.45
1983	10508.7	9798.6	93.24
1984	11253.3	10672.4	94.84
1985	15050.4	13750.2	91.36
1986	12595.8	11868.3	92.21
1987	24380.6	24692.2	97.29
1988	27596.7	26770.3	97.01
1989	53870.0	46860.3	86.99
1990	98102.0	68064.2	96.38
1991	100991.6	75600.3	74.86
1992	190453.2	125255.7	65.77
1993	192769.4	131195.9	68.06
1994	201910.8	115698.2	57.30
1995	459987.3	170522.9	37.07
1996	520191.0	179000.0	34.41
1997	582811.1	208000.0	35.69

Sources: CBN, *Statistical Bulletin,* Vol. 7, No. 2, 1992; and *Annual Report and Statement of Accounts* (December, 1997)

Apparently in recognition of the anomaly in revenue mobilization and allocation, the military in section 162 of the 1999 Federal Constitution approved by the Provisional Ruling Council (PRC) stipulated that all revenues collected by the government of the federation be paid into the Federation Account to be distributed among the three tiers of government based on the 1998 revenue allocation formula but subject to amendment by an act of the National Assembly. The only exceptions are revenues from personal income tax of the personnel of the armed forces of the federation, the Nigeria Police Force, the ministry or department of government charged with responsibility for foreign affairs and the residents of FCT, Abuja, which were to be retained exclusively by the federal government. The constitution also provided for the periodic review of revenue sharing formula, taking into account the principles of population, equality of states, internal revenue generation, landmass, terrain as well as population density, provided that the principle of derivation is constantly reflected in any approved formula as being not less than 13 percent of the revenue accruing to the Federation Account directly from any natural resources. By these provisions the other special accounts maintained exclusively by the federal government are abolished.

5. Implication of the Military Revenue Allocation Arrangement

The foregoing analysis of revenue allocation during the military era reveals clearly federal dominance of national revenue and the use of controversial principles and formulae for both vertical and horizontal allocation of revenue. This has great implications for economic growth and development, equity, national unity and inter-governmental tensions.

There is no doubt that revenue sharing arrangements have had adverse effect on economic growth and development effort, especially of the states and local governments. The appropriation of large proportions of revenue to the federal government placed the lower tiers of government in a very weak financial situation, making it difficult for them to embark on meaningful development projects. The situation contrasts sharply with the pre-military era where the regions were able to utilize revenue accruing to them under better revenue allocation arrangement to embark on social and economic development, including the establishment of universities, industries, roads, etc.

The poor development efforts of the states under the military fiscal arrangements were compounded by the continuous and unsystematic creation of new states and local government areas. This process, no doubt, weakened the lower tiers of government and led to the greater proportion of their resources being spent on the development of physical infrastructure required for effective administration, in addition to heavy overhead costs. The overall result is the inability to extend infrastructures to the greater parts of the states and local government areas while, at the same time, both human and social developments were grossly neglected. Even the federal government that received the bulk of the revenue was not left out of the decay in infrastructures — roads, educational and health institutions, etc. This was compounded by widespread corruption that reached unimaginable levels after the second coming of the military in 1984.

The lopsided revenue allocation, which favoured the federal government, has also generated inter-governmental and group tensions. The increasing wave of discordant voices from state and local governments in recent times is a pointer to the fact that there exist imbalances in revenue allocation. According to Mbanefoh (1993), the proportion of the state governments that did not advocate for more than 45 percent of the Federation Account in their submissions to the Revenue Mobilization, Allocation and Fiscal Commission in 1989 was about 73 percent. Yet in the 1990 revenue allocation formula 50 percent of the Federation Account was given to the federal government in addition to the revenue from other accounts maintained exclusively by the federal government. These inter-governmental and inter-group tensions have been heightened by the loss of tax and revenue base by the lower tiers of government (due mainly to the various decrees promulgated by the military) and biased federal presence in individual states. The consequence of the inter-governmental and group tensions is agitation for the creation of more states and local government areas as this has been the easiest way to address the biased federal presence and attract more revenue to an area. The military revenue allocation arrangement also threatened national unity, as the resulting discontentment caused the richer but neglected states to agitate for self-reliance or autonomy, while the poorer but opportune ones were motivated to seek political power at the centre. The current agitations of the Niger Delta nationalities are clear demonstration of this fact.

In an attempt to ensure equity and even development, the military emphasized such principles as population, equity of states, social development and internal revenue effort, while downplaying the principle of derivation (which was very important in the pre-military era). During the pre-military era the North and the West benefited greatly. It is, therefore, difficult to justify on equity grounds why the principle was not given prominence when it was time for another section of the country to benefit from it. The implication is the feeling of marginalization by the people affected and the continuous agitation for improved revenue allocation, especially among the people of the Niger Delta. These implications and the recent developments point to the fact that fiscal federalism and indeed revenue allocation was grossly undermined during the military era.

CONCLUSION

This paper has reviewed revenue allocation arrangements in Nigeria during the military era. We have discussed the various principles that were adopted for revenue sharing among the various tiers of government. Unfortunately, our analysis shows that the military authorities appropriated to the centre the greatest proportion of national revenue. This had constituted a serious contravention of the principles of federalism Nigeria purports to be operating. On the basis of these inadequacies, we conclude this paper with the following submissions:

a. there is an urgent need to restructure Nigeria's fiscal federalism to ensure the balance of fiscal powers among the federating units. In such restructuring, fiscal powers and share of central revenue need to relate directly to the constitutional functions assigned to the federal, state and local governments. In this regard we share the views of Tella (1999) that only financial independence of states will resolve the problem of fiscal federalism in Nigeria.

b. given the remoteness of the federal government from the people at the state and local governments levels, the revenue sharing principles and formula should be reviewed such that more financial resources are allocated to the state and local governments.

c. there is the need to assign to each tier of government revenue/tax sources that are commensurate with its responsibilities. That is, more revenue powers should be given to state and local governments.

d. the principle of derivation should be given its proper place in revenue sharing in Nigeria. To this end, we recommend that at least 30 percent of the revenue accruing to the Federation Account directly from natural resources should be set aside for distribution on the basis of derivation. It is our belief that revenue allocation and indeed fiscal federalism are very crucial to the survival of our new democracy, and this must be taken seriously.

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