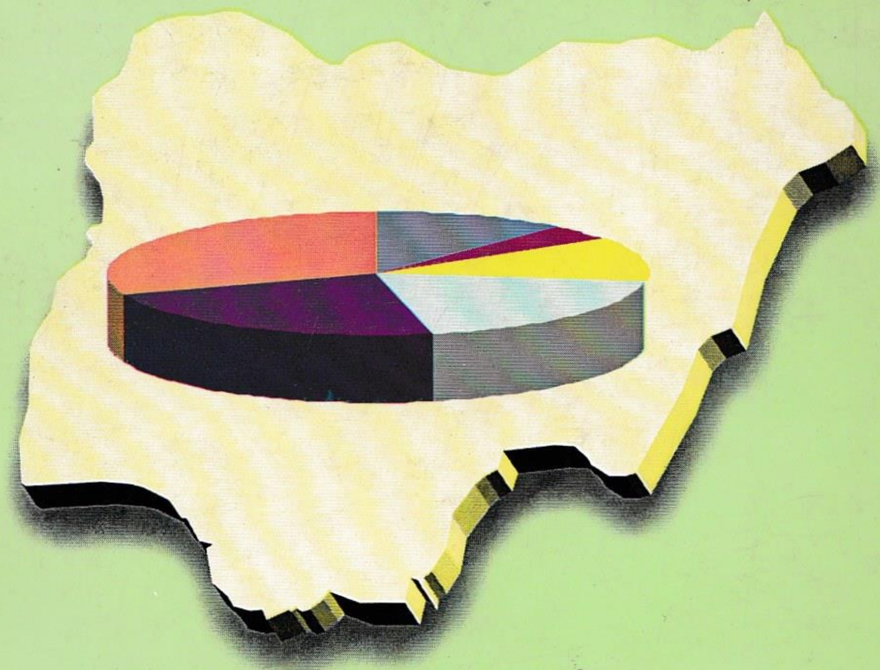
Issues in Fiscal Federalism and Revenue Allocation in Nigeria



Edited by:
Akpan H. Ekpo
Enamidem U. Ubok-Udom

Anthony Ani Professorial Chair Conference Series, Number 1, 1999

CHAPTER FOUR

The Politics of Revenue Allocation in Nigeria

Festus O. Egwaikhide & Akpan H. Ekpo

INTRODUCTION

The composite origin of Nigeria is often traced to the artificial political unification of the North and South in 1914. At this time, the regions were at different levels of development, the South being relatively more buoyant than the North. The former witnessed persistent budget surpluses as against deficits recorded by the latter[1].

Constitutional developments since the 1940s consistently featured the prominent subject matter of fiscal federalism. Inter-regional revenue allocation was dominated by the principle of derivation. Although, each of the regions benefited from the use of this criterion, on average, the West was the most favoured between 1948 and the early 1960s.

With the military take-over of power in 1966, the relative share of the North in total revenue allocation started to increase. From the early 1970s the two principles emphasized by the military in allocating revenue among states were "equality of states" and "population". These principles generally favour states with large populations, many of which are in the North and are financially weak. Even though oil revenue dominated total revenue of the federal government since 1973/74, the principle of derivation was de-emphasized by the military; and so, the Niger Delta, which is occupied by minority groups and from where crude oil is produced, is deprived of huge revenue from this depletable resource. In consequence, there is increasing dissatisfaction among the people of the Niger Delta over the way oil revenue is distributed and over the environmental impact of crude oil production. The negative benefits of oil are so tremendcus that the area has been attracting the attention of human rights and environmentalist groups.

This article highlights aspects of the political economy of revenue allocation in Nigeria. In this respect, the fiscal equity associated with the use of the principle of equality of states, population and landmass are indicated. The implications of de-emphasizing revenue sharing on derivation basis and the concomitant increase in tension in the oil-producing areas are pursued. It is argued that, in part, the bourgeoning petulant struggle among the regions for the control of political power at the centre is inextricably tied to the unjustifiable indignant veto of fiscal matters by the military. Under a democratic framework, the subject matter of inter-governmental fiscal relations would feature prominently, especially in debates by lawmakers.

The rest of the article is organized into four sections. Addressed in section 2 is the imbalance in federal–state–local fiscal relationships in Nigeria, a situation in which the centre has crowded out state and local governments; and section 3 discusses the major principles used for allocating revenue among states in Nigeria, and makes some interpretative comments. Some of the negative externalities associated with crude oil production and the reactions of the oil communities and government are analysed in section 4 while section 5 contains the concluding remarks.

2 Should State and Local Governments Wither?

The issue of inter-tier allocation of revenue in Nigeria is extensively dwelt upon in a number of publications[2]. Therefore, this discussion is limited to more recent developments. From the recommendations of the various fiscal commissions and the government white papers on them, the federal government had been taking about 50% of the revenue paid into the Federation Account since the early 1970s sharing the balance between state governments and local government councils. Some 1.5% to 3% is paid into a special funds that is administered in the oil-producing areas. However, there has been increased revenue centralization in the last decade. The undemocratic nature of governance by the military, through its command and control structure, has adversely affected federal–state–local fiscal relationships in Nigeria.

)f particular note here is the early 1980s when the price of crude oil slumped in the world market. Because of the near total dependence on oil revenue, the fiscal crisis triggered a series of problems in states that led to the dwindling of key macroeconomic indicators. This in itself clearly revealed how inert the Nigerian economy was[3]. The effects of the counter-depression measures adopted under the adjustment programmes thereafter kindled a lively debate among social scientists. Probably motivated by the desire to solve the budget deficit of the centre, the federal military government established stabilization, dedicated, and the Petroleum Trust Fund accounts in order to boost its revenue[4].

The cumulative figure of the expected revenue transfer to the Federation Account in 1996/98 was ₦1161 billion. On average, only about one-half of this amount was paid into the Federation Account for vertical sharing among the three layers of government. Unauthorized retained revenue by the central government during this period averaged ₦155 billion annually. Apparently, the federal government appropriated about 75% of the income paid into the joint account[5]. One direct consequence is obvious: state and local governments have been deprived of huge revenues needed to effectively discharge their constitutionally assigned responsibilities — the noncorrespondence problem in Nigeria's fiscal federalism. Unequivocally, this invidious pattern was not a consequence of the bargaining between the centre and the sub-national governments. Rather, the federal military government solely decided what the centre authority got from the Federation Account.

The excessive centralization of revenue artificially raised the fiscal capacity (because of unauthorized allocations) of the federal government — a development that frequently provoked strong competition among regions to have effective control of the government at the centre[6]. Pathetically, this phenomenon has erroneously left an unfortunate false impression among Nigerians, especially politicians and the military, that the central government is superior to the other two tiers of government. This, of course, is a flagrant negation of the principle of federalism, which recognizes that the different levels of government are coordinates and, with each directly affecting the people[7].

An important outcome of the intensified military fiscal centralization is the precipitation of inter-governmental fiscal tension. A direct manifestation of which is the imposition of several taxes and levies by state and local governments since the early 1990s, which are still unable to meet pressing expenditure demands. On the theoretical front, lack of coordination of these expanding second-best taxes and levies such as taxes on business premises, development levies, tenement rates and ground rent charges make the attainment of optimal tax structure exceeding difficult. The numerous taxes are considered inimical to businesses[8].

In addition, even with the precarious financial position of the lower levels of government, the federal military government directed each of the local councils to use 5% of the statutory allocation from the Federation Account to pay traditional rulers in their domains.

Students of fiscal federalism are agreed that a workable inter-governmental arrangement is predicated on continuously changing bargaining relations between the central government and the constituent units. The veto power on fiscal matters usually retained by the military in Nigeria posed a serious threat to the union. It is anticipated that federal–state–local fiscal relationships, part of the lifeblood of federalism, will be raised and debated under a democratic setting.

3. How Fair Is the Inter-regional Revenue Allocation Principle?

Available statistics on inter-regional revenue allocation when Nigeria was divided into three regions generally suggest that the Eastern Region received the least from the total amount disbursed for most of the years since 1948. Between 1953 and 1959, the mean annual revenue allocated to the West was about 42%, followed by the North with 31% and the balance of 27% went to East. However, the North and West maintained almost parity in the 1960–64 period. Since 1966, when the military took over the governance of the country, the North got the highest revenue allocation.

In the five years, 1970–74, the average yearly share of the North was 39% and that of the West stood at 38%. This changed significantly thereafter, with the Northern region allocated about 49%; West, 27%; and East, 24% over the 1977–80 period[9]. It is evident that while the relative shares of both the West and East were declining, that of the North tended to increase over time. Indeed, the share of the North further climbed to an average of about 52% in 1992–1995 fiscal years.

This observed distributional pattern of revenue is as a result of the principle and weights used. The first twenty-five years of revenue allocation, beginning from 1948, witnessed the intensive use and dominance of the principle of derivation, which was predicated on the notion that each region should receive revenue according to its contribution to total central government revenue[10]. Although, each region had benefited from this principle, it remained a source of rivalry and misunderstanding among the regions since it tended to favour one region at a time[11].

For instance, the Western regional government, not satisfied with the estimates of the regional distribution of imported goods (on which derivation was applied) other than tobacco and motor spirits by the federal government statistician, sought the advise of experts on the issue. It was then brought to the attention of the Raisman-Tress fiscal commission that the use of landed value of imported goods on which the derivation principle was based was not appropriate. That, a more accurate application required identifying these imported items on which duty was payable and allocating the actual revenue collected to the regions on the basis of the proportion consumed of that commodity in that region[12].

Prior to the profound domination of crude oil in Nigeria's economy, the Western Region generally got the highest allocation with respect to export cash crops and imported-based derivation. Some other principles featured during this period, including needs, fiscal autonomy and national interest, but their combined contribution to regional allocation was negligible indeed.

Since the mid-1970s, the derivation principle has paled into insignificance. In recent years, the people of the Niger Delta accused the federal military government of selective application of the principle of derivation. As demonstrated in Table 1, the sharing of royalties from the marble deposits in Igbeti, Oyo State is excessively favourable to the area with the community receiving 15%, local government of extraction, 10% and Oyo State government, 30%.

It can be argued that derivation as applied to this mineral is 55%, while that of oil is only 3%. The federal government takes only 20% from marble as against 97% from crude oil. But, the production of marble does not generate the monumental environmental pollution that is associated with oil production. Perhaps, the Ijaw people argue, what is clearly evident is that marble attracts higher derivation than oil because it is produced in Yoruba land (West), a major ethnic group that is politically powerful. By this development, one is inclined to agree with the argument of the Political Bureau that there is a direct relationship between regional control of political power and the use of derivation principle in Nigeria (Federal Republic of Nigeria, 1987:169–170).

In the 1970s, two principles that dominated inter-regional allocation were population and equality of states. Population as a criterion with a weight of 40%, though reduced to 30% in 1991, has been particularly beneficial to the North. In the 1978/79 year, the population factor accounted for the most significant proportion of the total revenue allocated to the following four states in the North: Borno (39.5%), Kaduna (54.4%), Kano (76.7%) and Sokoto (60.3%). In the Eastern Region, this factor dominated in three states Anambra, (47.8%); Cross River, (46.2%) and Imo, (48.8%). It was only in Oyo State in the West, that the population factor contributed substantially (69.2%) in that year[13].

While the use of population may reflect the reasoning that development must be people-centred, its unwilled use has made it obnoxious. The application of the population criterion without taking into account demographic characteristics undoubtedly dilutes its policy utility.[14] Population and its demographic features are very important since the tax base and expenditure needs of the different regions are directly influenced by them. More fundamentally, perhaps, the intensive use of the population principle to allocate revenue has made it exceedingly difficult, if not impossible, to have a credible headcount for development planning. Population is one of the arguments explored to create more states and local councils from the existing ones, a development which in turn leads to inappropriate revenue allocation.

TABLE 1: THE APPLICATION OF DERIVATION IN NIGERIA (OIL AND MARBLE)

(A)	Marble deposit in Igbeti, Oyo State (distribution of royalties)		
(i)	Oyo State government	30%	
(ii)	**Federal government**	**20%**	
(iii)	Local government extraction	10%	
(iv)	Community of extraction	15%	
(v)	Igbeti Marble Company	25%	
(B)	Crude oil (distribution of royalties)		
(i)	States of oil production	3%	
(ii)	**Federal government**	**97%**	
(C)	Changes in oil-based derivation revenue allocation to states in Nigeria		
	1953	100%	
	1960	50%	
	1970	45%	
	1975	20%	
	1982	2%	
	1984	1.5%	
	1992	3%	

(*Source: The Guardian*, May 26 1993: 26.)

Next is the principle of equality of states to which 40% is assigned. This is a potent factor influencing inter-regional revenue allocation in Nigeria. Evidently, of the nine states (Bauchi, Benue, Gongola, Kwara, Lagos, Niger, Ogun, Ondo and Sokoto) that relied most on the equality of states in 1978/79 fiscal year, six of them were from the North. On average, this principle accounted for about 60% of the total revenue allocated to all the nine states in that fiscal year.[15] A rough estimate of the impact of the principle of equality of states was done for 1992 (see Table 2). The total revenue that was distributed among the states and the Federal Capital Territory (FCT) based on this principle alone was N9798.9 million, a figure that substantially surpassed the combined internally generated revenue of N5, 244.7 million of all the states.

At the aggregate level, the equality of states-based revenue accounted for about 47.2% of the total recurrent expenditure of all the states and Federal Capital Territory (FCT) in 1992. Some of the states for which revenue from this principle contributed more than the national average included Adamawa (62.3%), Jigawa (93.2%), Kogi (75.5%), Oyo (60.2%) and Taraba (88%). Out of the thirty-one existing states then, the proportion of the revenue from the equality of states in total statutory revenue allocation in eighteen of them fluctuated between 41% (recorded by Kaduna State) and 66% (associated with Niger State). Strikingly, ten of the eighteen states were in the North.

TABLE 2: THE CONTRIBUTION OF THE PRINCIPLE OF EQUALITY STATES TO FISCAL PROFILE OF STATES IN NIGERIA, 1992[1]

State	Statutory Allocation	Equality of States (%)	ES RE%[2]	Internal Revenue RE
Abia	575.5	54.93	41.8	17.9
Adamawa	843.8	37.46	62.3	10.8
Akwa Ibom	1017.0	31.08	57.1	20.3
Anambra	667.9	47.32	38.1	16.6
Bauchi	1037.0	30.48	31.7	7.0
Benue	634.3	49.83	42.4	3.7
Borno	550.9	57.37	47.9	25.0
Cross River	589.2	53.64	50.7	9.8
Delta	685.8	47.98	44.6	45.7
Edo	486.9	64.91	58.6	15.7
Enugu	594.4	53.17	X	X
Imo	941.9	33.55	34.1	15.0
Jigawa	981.4	32.20	93.2	7.0
Kaduna	763.2	41.41	31.8	32.5
Kano	820.0	38.54	35.5	75.4
Katsina	1352.6	23.36	52.3	8.4
Kebbi	567.2	56.42	66.6	22.6
Kogi	606.2	52.14	75.5	7.7
Kwara	534.6	59.12	57.2	18.9
Lagos	1284.9	24.60	19.0	80.6
Niger	477.0	66.26	66.3	4.5
Ogun	554.7	56.98	51.8	15.1
Osun	989.3	31.95	62.2	16.2
Oyo	1122.4	28.16	60.2	84.3

Continued on the next page

Table 2 continued

State	Statutory Allocation	Equality of States (%)	ES RE%[2]	Internal Revenue RE
Plateau	723.7	43.67	68.3	26.8
Rivers	1308.7	24.15	37.6	6.6
Sokoto	1230.0	25.69	39.1	13.4
Taraba	1157.3	69.12	88.1	49.7
FCT Abuja	770.4	41.02	35.2	3.6
Total	24497.3	40.0	47.2	25.2

Notes: 1. The revenue from equality of states was obtained by taking 40% of the aggregate statutory allocation to states and FCT. This aggregate amount was shared equally among states and FCT. It is the percentage of this statutory revenue allocation that is reported.
2. ES/RE refers to the relative share of the revenue from the equality of states in recurrent expenditure
3. Tthe last column is the proportion of internally generated revenue in recurrent expenditure.

Source: Computed from CBN: *Annual report and Statement of Accounts* (1995).

The inescapable inference derivable from this trend is that the sustained fiscal survival of most states in Nigeria, with the Northern states having to benefit most, is largely due to the principle of equality of states. Considering the generally poor internal revenue position of the states, with the Northern states generally unable to compare favourably with Southern states, it is also inevitable to surmise that the military has retained this principle to redistribute financial resources from the "rich" South to the "poor" North.

Even so, regional imbalance, in terms of social development indicators, is a stunning attribute of the Nigerian federal experience. A thorough and very recent empirical enquiry about the existing inequalities in Nigeria by Abumere (1998) is particularly revealing. Based on the interpretation of the UNDP 1996 report on Human Development Index (HDI) for Nigeria, it was argued that Northern states generally performed poorly when juxtaposed with Southern states. Because the UNDP study employed only three variables (longevity, knowledge and income), Abumere decided to enlarge the number of variables to nineteen in other to gain greater confidence in the results. Evidently, his findings did not quite substantially repudiate the UNDP's conclusion. Although, a number of plausible factors were advanced to explain the observed spatial inequalities, it was acknowledged that the control of political and military power by the North, effectively explored to influence resource allocation, has only made negligible impact, if any, on spatial imbalance. This is not only scandalous; it also represents a serious indictment on the North-dominated military leadership in Nigeria.

Other factors used in the inter-regional revenue allocation are internal revenue effort, social development factor, and landmass and terrain. The first two principles have been used for about twenty years now, while landmass and terrain started to feature from the early 1990s. The historical origin of landmass as inter-regional revenue allocation principle has been credibly traced by Mbanefoh (1993:75–76), and some of the problems with it highlighted by Emenuga (1993:98). It is apparent that this principle was not subjected to public debate before it was introduced. The assignment of a weight of 10% to this factor by the military possibly suggests that benefit to the North may be sizeable[16]. Even from the submission of Mbanefoh, it is clear that more states in the North supported the principle of landmass and terrain than Southern states, an interest probably expressed because of the substantial gain to be obtained from it. Since most people are not aware of the existence of this principle, together with the increasing concern about the Nigerian federation and inter-governmental fiscal relations, there is need to revisit this criterion under civil rule.

In general, the various principles that are used to allocate revenue among the regions have tended to favour the North. But the bulk of the revenue paid into the Federation Account since the early 1970s for inter-regional distribution is from crude oil that is located in the Niger Delta of southern Nigeria. Admittedly, even the non-oil revenue (for example, import tax revenue) is driven largely by the performance of the oil sector. Thus, the objections to revenue sharing on origin basis by the military have meant that the rising expenditure demands of the North have been financed at the expense of the South, particularly by the oil-producing region that suffers severely from the negative externalities of crude oil production.

4. Negative Benefits of Oil and the Response

The Nigerian petroleum industry is dominated by multinational oil companies. Although, crude oil was first exported in 1958, its importance in terms of the contribution to government revenue became significant from the early 1970s. Since then oil exploration and production has intensified. As should be expected, oil production imposes substantial negative effects on the oil-producing communities through several channels. Perhaps, oil spillage represents the single most important source. Between 1976 and 1995, more than 3500 incidents of oil spillage were registered in which not less than 2 million barrels of crude oil was discharged as a result[17].

The Ejamah–Ebudu community oil spillage of 1970 caused by the Shell Petroleum Development Company (SPDC) led to the desiccation of a vast virgin forest in Ogoni land. Unfortunately, the company did not commence cleaning operations until 1984, about 14 years later[18]. There was also the Funiwa oil spillage, caused by Texaco Nigeria Ltd. The Agip Oil Company caused oil spillage through its operations in Brass and Ogada in Rivers State — about 10,000 barrels of crude oil was discharged in the August 13, 1983 spillage by this company[19].

Environmental pollution also occurs through gas flaring. It is estimated that the gas produced daily is about 1,923 million cubic feet; and of this, about 88% is flared, an equivalent quantity of about 210,000 barrels of crude oil. One direct consequence of this is rain that is inimical to human health and agriculture. This development facilitated the corrosion of corrugated iron sheets on roofs within two years in Iko, Akwa Ibom State.

The bulk of the environmental damage arising from oil production is largely attributed to the use of obsolete machines and equipment, and the application of old-fashioned technology. However, the oil companies acknowledge that part of the oil spillage has been due to sabotage by the oil communities themselves. Similarly, the SPDC indicated that about 28% of its spillage was due to the destruction of its equipment and pipelines by the oil-producing communities.[21]

Environmental degradation, via oil spillage, blow-out arising from seismic surveys, canalization, use of toxic chemicals, and improper waste disposal, etc, by oil companies have adversely affected man and human activities in the Niger Delta.[22] Generally, response to oil spillage is often poor and belated, and the technology used for cleaning is outdated. The public watchdog institutions such as the Federal Environmental Protection Agency (FEPA) and the Department of Petroleum Resources (DPR) that are to ensure that the oil companies follow laid down standards and procedures are very weak and lack the capacity to enforce conformity.

The destruction of the ecosystem, aquatic life and agricultural production has generated tension and debate in recent years. Due to population pressure and the destruction of agricultural farmlands in oil-producing communities, food prices have skyrocketed.[23] Oil-producing communities demanded for compensations from the oil companies, sometimes through demonstrations. It has been reported, for example that members of the Umuechem village in Rivers State demonstrated against the SPDC's operations, for they argued that the community was yet to get social amenities even though the company started its operations there since 1959. In response, the SPDC invited the police in 1991and many people were killed in the process.[24]

In late 1993, about 5,000 members of the Obagi community (also in Rivers State) closed the Elf facility in the area. Soon after, more than 3,000 people in Brass protested against Agip's operations.[25] The civil disturbance that led to the killing of three Ogoni prominent chiefs and one other person; and the eventual arrest and trial of Ken Saro-Wiwa and eight others, and their subsequent execution in November 1995 is a graphic demonstration of the tension and dissatisfaction in the oil-producing communities. Since 1994 when the Ogoni civil disturbance occurred, the SPDC is yet to resume its operations there. Indeed, environmental damage caused by oil production, together with dissatisfaction regarding the way in which oil revenue is shared led to the proliferation of human rights and environmentalist groups such as the Isoko Rights Protection Movement (IRPM), Environmental Right Action (ERA), and the Movement for the Survival of Ogoni People (MOSOP) which put constructive pressure on the oil companies and the government.

Adequate compensation to oil communities will certainly improve the living conditions of the people, reduce tension and promote peace in the Niger Delta region. However, there is the question of who should pay compensation — the government or the oil companies? The oil companies regard their operations basically for the maximization of their profits, creating wealth for the nation in the process through the payment of taxes and royalties; but do not see it as their business objective to be preoccupied with the way and manner oil revenue is distributed.[26] Thus, the socio-economic projects pursued in the oil communities by the oil companies are only a part of their moral obligation to the people. The inference here is that it is the government that has the sole responsibility to adequately remunerate the oil communities. The military governments were insensitive to the problems of oil-producing communities. The people of the Niger Delta have been deprived of huge revenues from oil production by the military through the near elimination of the derivation principle since the mid-1970s.

To placate the oil communities, the federal government approved in 1981 1.5% of the total revenue in the Federation Account for the development of mineral-producing areas. The funds from this piled up in the Central Bank of Nigeria vaults until 1990 when a task force was set up to utilize the money. Undeniably, the move was a swift reaction to an unsuccessful military coup that was aimed at ousting the Babangida military administration. Members of the 1990 coup, led by Major Gideon Okar, were largely old boys of Government College, Ughelli and were mainly from the Niger Delta. They alleged that the bulk of the oil revenue was not used to develop oil-producing areas.

In 1992, the government established the Oil Mineral Producing Areas Development Commission (OMPADEC) to manage the 1.5% allocation from the Federation Account. In addition, the government directed that 5% of the annual budget of each oil company be spent in the oil-producing communities. By this directive, the military government has patently admitted that what it spends in the oil-producing areas through OMPADEC is grossly inadequate; and thus, the military prevaricated on the issue of oil-based derivation. Who is to verify that the 5% is actually spent by the oil companies? Why impose an additional burden on the oil companies when they are paying their taxes and royalties as at when due? Answers to these and related questions cannot be sought within the scope of this paper.

Since its inception in 1992, OMPADEC has awarded contracts to execute several projects in the oil-producing states, but most of the projects are yet to be completed. It has been alleged that since the government appoints members of OMPADEC, the government can easily manipulate it. There is even the allegation that OMPADEC is used to settle vociferous citizens in the oil-producing areas.[27] Favouring local elites through the award of contracts and outright repression are some of the strategies adopted by the military government to significantly weaken local opposition against the oil companies.

Indeed, an important conjecture from various reports is that both the government and the oil companies use divide-and-rule tactics to avoid the payment of legitimate claims to oil-producing communities. Oil companies sponsor dissidents among the people so as to create weak pockets of opposition[28] and exploit intra- and inter-ethnic hostilities to gain advantage. Governments, on the other hand, appoint elites from oil-producing communities as commissioners/ministers, permanent secretaries, board members and in other lucrative appointments.

The downtrodden people of the Niger Delta have found this "selective" compensation and settlement derisive and unacceptable. Thus, the support of the people from this region for the proper restructuring of the Nigerian federation is inextricably tied to oil production, the sharing of oil proceeds, and the amelioration of environmental effects of oil. This is justified when it is realized that the federal military government spent about ₦3 billion for oil exploration in the Chad Basin in northern Nigerian.

OMPADEC has not met the aspirations of the people in the oil-producing areas. The re-organization of OMPADEC to make it effective and result-oriented was announced on October 1, 1998 by the Head of State in his independence anniversary speech to the nation.

CONCLUSION

Since the mid-1970s when the principle of derivation was de-emphasized by the military, there has been increased revenue centralization, while two principles — population and equality of states — have been stressed in inter-regional revenue allocation. Several factors explain the liquidation of derivation principle, but only two are indicated. First, is that emphasizing derivation would have significantly raised the fiscal position of the South, particularly that of the oil-producing states, and therefore, would have enhanced the control of political power. Second, is that crude oil is produced by some minority groups of the South that are relatively less influential in the politics of the centre. The military, controlled by the North, was unable to reduce the socio-economic inequality between the North and South via its revenue allocation formulae.

Evidence reveals that the principles of population and equality of states have combined to significantly improve the revenue position of the North relative to the South. This, perhaps, justified the dictatorial use of these principles by the military. The fragmentation of Nigeria unequivocally created the problem of unequal fiscal capacity with implications for unequal service delivery across the regions. It is basic to address the problem of unequal fiscal capacity of the multi-level finance. A widely recommended transparent instrument for dealing with this is the unconditional or block grant system. This suggests that the continued inelegant use of population and equality of states will certainly aggravate inter-regional hostility and antagonism.

Given the monumental environmental damage arising from oil production, appropriate compensatory framework should be evolved. The divide-and-rule policy of managing oil-induced crises in the oil-producing areas in recent years should be discontinued. While derivation should be stressed once more, it is not a substitute for the federal–state–local bargaining solution that must be sought under civil rule.

ENDNOTES

1. On the issue of surplus/deficit in the South and the North at this period, see Phillipson (1948), Adedeji (1969) and Okigbo (1965).
2. For example, see Teriba (1966), Phillips (1971; 1975), Mbanefoh (1993) and Emenuga (1993).
3. On Nigeria's inert economy, see Schatz (1984) and Inang (1997).
4. For a brief comment on the Petroleum Trust Fund, see Mbanefoh and Egwaikhide (1998).
5. The figures presented here were calculated from the data reported by the federal government in its annual budgets for 1997 and 1998. A fair treatment of fiscal centralization can be found in Egwaikhide and Ogunkola (1998).
6. This and other issues are dealt with extensively by Ayoade (1997).
7. On this, see Burkhead and Miner (1971).
8. This is the view of Phillips (1995).
9. These data were computed from Omorogiuwa (1981)
10. The principle of derivation was first introduced by Phillipson (1948) as a means of inculcating fiscal discipline in the regions.
11. On the changing importance of derivation-based revenue from one region to another, see Teriba (1966), Phillips (1971; 1975), and Mbanefoh and Egwaikhide (1998).
12. See Raisman and Tress (1958: 6).
13. On this, see Federal Republic of Nigeria (1980:22).
14. Ibid, pp. 33–34
15. Ibid, pp. 22
16. In part, this view is anchored on the allegation that the Nigerian military has always served the interest of the North, as attested to by the annulment of the June 12, 1993 presidential election supposedly won by a southerner. Thus, the need to restructure the federal system by members of the civil society in the South, and regional command of the armed forces are advocated.
17. See *The Punch*, February 24, 1988, p. 16
18. This and other cases can be found in *Newswatch*, December 18,

1995, pp. 11–15; and *Newswatch*, January 8, 1996, pp. 29–33

19. *Newswatch*, December 18, 1995, pp. 15
20. *Newswatch*, January 8, 1996, p. 32
21. On this, see *The Guardian*, March 14, 1996, p. 15
22. These and other sources of environmental pollution can be found in *Newswatch*, January 8, 1996, p. 28–33.
23. *Tell*, December 18, 1995, pp. 16
24. *Newswatch*, December 18, 1995, pp. 10
25. Ibid, p. 15
26. This was the submission of the Managing Director of SPDC, Mr. Brian Anderson. For more details, see *The Guardian*, March 14, 1996, pp. 15 and 17.
27. See Tell, December 18, 1995, pp. 16–17
28. Ibid, pp. 16–17

REFERENCES

Abumere, S. (1998), "Distributional Inequity and the Problem of National Integration," An Inaugural lecture delivered at the University of Ibadan, Nigeria, September 3.

Adedeji, A. (1969), *Nigerian Federal Finance,* Hutchinson Educational, London.

Ayoade, A. A. (1997), "Nigeria and the Squandering of Hope," Inaugural lecture delivered at the University of Ibadan, Nigeria, October 16.

Burkhead, J. and J. Miner (1971), *Public Expenditure,* Macmillan, London.

Egwaikhide, F. O. and E. O. Ogunkola (1998), "Fiscal Centralisation in Nigeria: Recent Trends and Implication for Fiscal Federalism", Mimeo, Department of Economics, University of Ibadan, Nigeria.

Emenuga, C. (1993), "Nigeria: The Search for an Acceptable Revenue Allocation Formula", *The National Question and Economic Development in Nigeria*, Proceedings of the 1993 Annual Conference of the Nigerian Economic Society, 79–105.

Federal Republic of Nigeria (1980), *Report of the Presidential Commission on Revenue Allocation*, Vol. iv, Federal Government Press, Lagos.

Federal Republic of Nigeria (1987), *Report of the Political Bureau* Federal Government Press, Lagos.

Inang, E. E. (1997), "The Nature and Challenges of the Inert Economy: The Case Study of the Nigerian Economy", Presidential Address Delivered at the Nigerian Economic Society Conference, Kaduna, August 20–23.

Mbanefoh, Gini F. (1993), "Unsettled Issues In Nigeria's Fiscal Federalism and the National Question", *The National Question and Economic Development in Nigeria*, Proceedings of the 1993 Annual Conference of the Nigerian Economic Society, 61–77.

______ and F. O. Egwaikhide (1998), "Revenue Allocation in Nigeria: Derivation Principle Revisited", in K. Amuwo, A. Agbaje, R. Suberu and G. Heraut (eds.), *Federalism and Political Restructuring in Nigeria,* Spectrum Books Limited, Ibadan.

Okigbo, P. N. C. (1965), *Nigerian Public Finance,* Longman, London.

Omorogiuwa, P. A. (1980), "Nigeria: The Effect of State Creation on Revenue Allocation and Economic Development", Etete Essay Series No. 1, (Published for the Association of Graduates of American Universities, Nigerian Chapter).

Phillips, A. O. (1971), "Nigeria's Federal Financial Experience", *The Journal of Modern African Studies*, Vol. 9, No. 3, 389–408.

______ (1975), "Revenue Allocation in Nigeria 1970–80", *The Nigerian Journal of Economic and Social Studies,* Vol. 17, No. 1, 1–28.

______ (1995), "Fiscal Impact of Government on Business", Paper presented at NISER's National Executive Policy Seminar, Ibadan, February 14–16.

Phillipson, S. (1948), *Administrative and Financial Procedure under the New Constitution: Financial Relations Between the Government of Nigeria and the Native Administration*, Government Printer, Lagos.

Raisman, J. and R. C. Tress (1958), *Preliminary Report of the Fiscal Commission*, Government Printer, Lagos.

Schatz, S. P. (1984), "Pirate Capitalism and the Inert Economy of Nigeria", *Journal of Modern African Studies,* No. 1, 45–47.

Teriba, O. (1966), "Nigerian Revenue Allocation Experience", *The Nigerian Journal of Economic and Social Studies*, Vol. 8, No. 3, 361–382.