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CHAPTER 9

FISCAL FEDERALISM: CONTENTIOUS ISSUES IN REVENUE ALLOCATION IN NIGERIA

Isaac Chii Nwaogwugwu

1. Introduction

In recent years, fiscal federalism has been receiving the much needed attention from different quarters. These include; economists, political scientists, politicians, administrators, lawyers, journalists and even laymen. The consciousness of ‘everybody’ on this subject appears to have been ignited by the developments in the practice of federalism in the country in the past five decades. These centre mainly around multiplicity of federating units, fiscal unviability of the states, a sustained stress in federal-states fiscal relations, subjugation of the local authorities by the states, opaque operation of the Federation Account (FA), illegality of the Excess Crude Account (ECA) that was created during the regime of President Obasanjo and the questionable creation and management of the Sovereign Wealth Fund (SWF) as well as the general collapse of institutions and governance. Nigeria’s federal set-up indeed appears to have become a glaring example of a dysfunctional federalism. Consequent on these, resource devolution (which is generally referred to as Revenue Allocation in Nigeria and federalism literature) remains more contentious an issue today than it was in 1949 when Sir Philipson was saddled with the responsibility of designing a suitable model for a centralised federal set-up that Nigeria had just become.

It will not be out of place to say that the agitation by various ethnic nationalities for a better deal and the emergence of ethnic-coloured militia groups are offshoots of disenchantment with the operation of federalism in the country in general and the adoption of gravely inefficient and unjust models of revenue allocation over the years, (Orokpo 2014 and Nwaogwugwu 2007a). Fundamental to this problem is plurality of socio-cultural, religious and ethnic diversities
that appear to have been ‘mismanaged’ over the years by the political gladiators who have always cashed in on the ‘diversities’ in the polity for their political exploits. It is therefore not surprising that countervailing forces have been holding sway in the body politics of Nigeria.

This work, in essence is an attempt to identify and analyse the contentious issues of revenue allocation in Nigeria. In order to investigate this objective, the remaining part of the work is structured as follows; section two deals with background to the study while theoretical issues and literature review have been examined in section three. The contentious issues of revenue allocation in Nigeria, is presented in section four while conclusion of the work has been done in section five.

2. Background
The road to maturity of the Nigerian federal set-up has been rough, tedious and treacherous. What is known today as Nigeria were three different colonial administrative units of Southern protectorate, the colony of Lagos and the Northern protectorate. These were later merged (for the administrative convenience of the colonial masters) into one country christened Nigeria in 1914. This exercise, the amalgamation of 1914 has become very notorious, especially among people of the south as it is usually seen as the major source of the crises that have bedevilled Nigeria ever since. This allusion stems from the fact that a highly heterogeneous polity with diverse preference, culture and religion were brought under a centralised budgetary system and thereby erroneously suggesting the existence of convergence of preferences of the people.

Nevertheless, the disaggregation of the polity into three sub-national governments of Northern, Western and Eastern regions in1935 marked the beginning of decentralised fiscal and administrative system in Nigeria (Ekpo 1999). This was later strengthened in 1951 when Nigeria assumed a quasi-federal status, see (Adedeji1969). It became a full-fledged federal set-up in 1959 as the regions were given enough power to legislate on matters affecting them.
individually while responsibilities affecting the whole nation were assigned to the federal government. It appears note that the tripod federal set-up of disproportionate land mass, resource endowment, stages of economic development and taxable capacity meant that the federation was structured to be in perpetual crises. In 1963 however, a fourth region was created out of the Western region, the Mid-western region consisting mainly of the minorities of the Western region.

While Decree No. 14 of 1967 reversed the gains made in consolidating the manifestations of the principles of federalism in Nigeria, the creation of twelve states in 1967 and adoption a two-principle model of population and equality-of-states immediately for revenue allocation laid the foundation of politics of centralistic federalism and of revenue allocation in Nigeria. This became evident in the subsequent states creation exercises as well as in the provisions of the 1979 and 1999 constitutions of the federal government of Nigeria.

But of grave importance is the fact that the era of intensified politics of revenue allocation coincided with the period of increased productiveness of oil revenue bases. That is, from early 1970s till date. Before 1970 oil revenue accounted for less than 5% of the total revenue of the federation. It stood at 98% in 1980 and it is currently around 75% (CBN 2000 and 2016). Interestingly, rather than ensuring efficient and effective utilisation of the increased revenue flow as driver of growth and development of the national economy attention was focused primarily on superficial 'sharing' of the 'national cake' (which the oil revenue had become) between the federal government and the federating units on one hand and the North and the South on the other hand (Nwaogwugwu 1996). It suffices also to say at this juncture that the last authentic review of federal-states financial relations was done in 1992 by the Danjuma Commission. The formula currently in use was derived from a modification order of Obasanjo in May 2002 and amended in July 2002 and January 2004 respectively. The order which emanated from the Supreme Court judgement of April 5 2002 aimed at bringing the
relevant sections of the subsisting revenue allocation (Federation Account) Act in conformity with the provisions of the 1999 constitution of the Federal Republic of Nigeria, Ikeji (2011).

This way a dysfunctional model of federalism was enthroned in Nigeria with its attendant problems manifesting in every aspect of its operation. It was not therefore, surprising that revenue allocation in Nigeria has failed to address some basic questions such as whether:
(a) resource devolution in Nigeria aims at achieving allocation efficiency and stabilisation of macroeconomic variables?
(b) resource allocation helped to boost public goods provision at local, regional and national levels?,
(c) the operation of fiscal federalism in Nigeria spurred growth and development?
(d) revenue allocation impacts on local government administration and integrated rural development?
(e) revenue allocation system in Nigeria intensified waste by enlarging bureaucratic size?
(f) revenue allocation intensified competition between the federating units in standardisation of quality and quantity of socio-economic services they provide to their citizens
(g) there is standardisation of public good provision across the federation.
(h) the revenue allocation system encourage corruption within the polity?

These are the basic questions that are normally addressed in most models of revenue allocation taking into consideration the spatial limitations of cost and benefits which is fundamentally the determinant of the number and size of the federating units as well as the ‘Assignment Problem’ (revenue and expenditure power devolution). It may therefore, be concluded that the Nigerian federalism seems badly deformed by politics over the years.

3. Literature Review and Theoretical Issues
Federalism is increasingly becoming a preferred system of government in the world today. This seem to derive from the obvious benefits of decentralised fiscal operations which is critical for public
good provision at local and regional levels in addition to the convenient administrative structure inherent in it. The desire for federalism presupposes commonality of socio-cultural features, ethnic pluralism and the desire to have a common government (Wheare 1953). It requires some measure of power to be surrendered to the national government. The model usually applied is creation of a single political system within which power is shared based on economic, political and social considerations (Agbu 2004 and Nwaogwugwu 2007a).

It suffices therefore, to say that federalism is a system of government that ensures co-existence of a national government and a set of sub-national governments within a polity such that assignments are distributed between them without compromise on efficiency in production of goods and services. This essentially gives rise to the economics concept of federalism which is generally paraphrased as fiscal federalism. As hinted by Ramphal (1979) federalism stands justified on the grounds of socio-cultural, political and economic reasons. Politically, federalism could be put in place as dynamic application of constitutional development in the process of nation building, emerging as a functional arrangement among states or more accurately communities.

According to Bednar, Eskridge and Ferejohn (1999 p. 4), "Federalism, the division of sovereign authority among levels of government, can be seen as a way of stabilising, or making credible, decentralised governmental structures". They also emphasise the need for cooperation among all tiers of government in the federal set-up. Hence, they stated that "the advantages of decentralization are realizable, however, only if there are good reasons for the players -- ordinary citizens as well as regional and central governments -- to believe that others will generally abide by the terms of the federation. That is, all must believe that the regional governments will not try to take advantage of one another and that the centre will not try to usurp power from the regions. Without such assurance, frequent disputes and suspicion of foul play would reduce the participants enthusiasm for the federation, possibly motivating some participating governments to withdraw from the federation altogether" (Bednar et al 1999 p. 2).
Rao and Sigh (2006) emphasised that political theories see federalism as a bargain among constituent units of the federation to preserve group identities while ensuring security and stability whereas economic theories emphasize the efficiency and equity impacts on resource allocation, for private as well as public goods and services. This thereby highlights two aspects government behaviour in a federal system: first, one cannot assume that different governments in a federation will automatically cooperate and second, the government at all levels is composed of self-interested individuals.

Fiscal federalism is fundamentally the allocation of tax-raising powers and expenditure responsibilities. It’s a system under which production of goods by all the governments within the vertical arrangement is decentralised while allowing public consumption levels to be tailored to suit the preferences of a heterogeneous population (Bruneckner 2005). Clearly the beneficial outcome of fiscal federalism can be maximised, if the population is fragmented into homogeneous jurisdictions each of which provides a different quantity of public good. This way a well-structured federal set-up permits fragmentation of the lower-level governments into units based on principles enshrined in the theory of clubs (Tiebout 1956) which emphasises reasonable level of homogeneity of the population, convergence of preferences and spatial limitation of costs and benefits. The essence of this is to ensure that the number of units created in the polity is within the optimal range which will ensure stability of the system.

The drawback of fiscal federalism manifests mainly on sacrifice on scale of economies due to smaller spheres of operation (Oates 1972, Alensina and Spoalire 1997) as well as losses from inter-jurisdictional tax competition (Bruneckner 2005), and the failure to properly account for spill of social goods across the jurisdictions, (Oates 1972, Basley & Coate 2003).

One of the inherent features of fiscal federalism is a mismatch between resource and responsibility. This implies that revenue sharing arrangement in a federal set-up has the tendency of causing a
disproportionate relationship between revenue powers and expenditure activities of the federal government on the one hand and of the sub-national governments on the other hand. This is generally referred to as vertical fiscal imbalance, the problem of non-correspondence or vertical inequity in revenue and expenditure. The distribution is usually such that the federal gets more revenue than its expenditure obligations whereas the federating units get more expenditure activities than their independent revenue bases support (Nwaogwugwu 1996). Another inherent feature of fiscal federalism is the inequality among the federating units or lower-level governments which essentially institutes different tax regimes or rates across the federating units for standard provision of socio-economic services. That is to say that if all the states or regions in the federation are required to provide the same standard of service the above average states or regions will impose a less than average tax rate to deliver on that standard provision whereas the below-average states or regions will have to impose above average tax rates for the same quality of provision. This is called horizontal fiscal imbalance (Wheare1953, Thimmaiah1985 and Nwaogwugwu 2007b, Wildavsky 1984 and Elazar 2004). It is the existence of vertical and horizontal fiscal imbalances that makes fiscal adjustment exercises sine qua none in every federal system of government notwithstanding the extent of power devolution. Three common mechanics of fiscal adjustment exist; statutory transfers, federal grants and federal loans. The aim of fiscal adjustment is to ensure that each tier and unit of government is able to discharge its constitutional obligations as well as achieve the goal of fiscal equalisation.

Many researches have been conducted on fiscal adjustment or revenue allocation globally as well as in Nigeria. Gordin (2006) in his work on Argentina noted that the distribution of intergovernmental transfer is by all means a political issue, because the amount of resources granted to subnational governments will determine their viability and success. Liu and Zhao (2011) investigated the incentive effects of total central fiscal transfers and its components, tax rebates and equalization grants, on provincial tax efforts in China. Their result predicts negative impacts on provincial

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tax efforts from both total fiscal transfers and equalization grants, while the effects of tax rebates are theoretically unclear. Hepp and Hagen (2008) observed that the German fiscal system is quite effective in achieving its main goal of creating comparable living standards in different parts of Germany. The less equal the income distribution among states the more effective is the system. This is exemplified by the difference in results for pre- and post-reunification.

In Nigeria most of the works on Nigeria’s fiscal federalism or revenue allocation concentrate either on peripheral evaluation of the ‘Assignment Problem’, (ie, revenue and expenditure power devolution) alongside institutional approach to revenue allocation or shallow analysis of the suitability or otherwise of the models of resource devolution. Khemani (2001) noted that Nigerian fiscal federalism is distinguished by overwhelming concentration of tax jurisdiction at the level of the federal government. According to him whereas the federal government controls the productive revenue bases such as; petroleum profit tax, import duties, mining rents and royalties and company income tax while the major revenue sources of the states and local government authorities are the low-yielding revenue bases like personal income tax and property tax. As a result in 1999, transfers to the states constituted 75% of their total revenue. It was 94% for the LGAs, (FRN 1999). This is also in line with Orokpo (2014) who noted that revenue allocation in Nigeria promotes dependency of the sub-national governments.

Similar view has been established by Nwaogwugwu (2017). In his study that measures the degree of Vertical Fiscal Imbalances using alternative measures of ‘Own Revenue’ of the sub-national governments he arrived at the conclusion that under the traditional definition of ‘own revenue’ of the governments (before any transfer is made) the Vertical Imbalance Ratio (VIR) was as high as 0.7564 recorded in 1996 and 0.9341 observed in 2006. This would mean fiscal dependence of 76% to 93% within this period. The implication of this is that the Nigerian sub-national governments generally financed their budgets from internal and generated revenues only up
to the extent of between 7% in 2006 and 24% in 1996, depending on other sources (transfers and loans) for the remaining part of the budget.

Lukpata (2013) examining the role of the various commissions for revenue allocation in developing an appropriate vertical sharing formula noted that each tier of government wants to have a sizeable share of the national cake. The frequent promulgation of military decrees before now and the frequent setting up of commissions both for the purpose of revenue allocation was to satisfy the interest of the stake-holders in having a fair share of allocation from the common pool account. It is in a bid to satisfy these competing interests that Nigeria is in a continuous search for a generally acceptable formula for revenue allocation. Therefore, all efforts aimed at achieving generally acceptable model for revenue sharing in Nigeria should be guided by national interest which should supersede individual or primordial interests.

On horizontal fiscal imbalances Akujuru (2015) observed that the major challenge before the government of Nigeria is to ensure equitable allocation of resources to all groups that make up the nation and to guarantee that the goose that lay the golden eggs are adequately taken care of. Ojo (2010) expressed the fact that horizontal revenue sharing policies in Nigeria give insufficient attention to such largely non-controversial principles of revenue allocation such as socio development factors and revenue effort while ignoring technical principles such as budgetary obligation, absorptive capacity, fiscal efficiency et cetera. For Ikeji (2011), political conflicts have led to manipulation and delineations with the aim of influencing wealth allocation. This is in conformity with Khanami (2001) who observed that the present federal arrangement is a direct offshoot of military rule in the country with an attendant risks that the lower level governments were created to behave more like agencies of the centre, perhaps for the primary purpose of political distribution of national resources through fragmentation of the existing units into smaller ones along ethnic and political lines.
Olofin, Olubusoye, Ajide, Salisu and Olalekan (2011) is one of the few works that have investigated the regional gains from federal transfers in Nigeria. Using a cluster analytical approach the work discovered that a small number of states constituting each of the clusters in terms of statutory Allocation, Value Added Tax (VAT) and Net Statutory Allocation occupied the range of values for highest and lowest allocation. The study further noted that South East specifically was found to be the least beneficiary of statutory allocation when the revenues of the various states in each geopolitical zone are aggregated.

4. Issues in Revenue Allocation in Nigeria
Critical issues that impede the development of federalism in Nigeria are many and several could be seen clearly in the foregoing overview of literature. They can be summarised under; badly designed structure, overbearing Assignment Problem, a highly politicised Non-Distributable and Distributable Pools, weak goals and unrealistic models of revenue allocation, lopsided fiscal adjustment techniques and weakened institutions for fiscal adjustment.

4.1. Structure of the Federal Set-up
The structure of Nigeria’s federal set-up has undergone dramatic changes over the years. These conformational changes have followed the order ‘arranging’ a polity (for ‘suitability of federalism) into federalism by ‘aggregation’ or ‘disaggregation’. First the protectorates of the Northern and Southern Nigeria were aggregated into a country through the infamous and notorious amalgamation of 1914. Thereafter, the structure of the set-up assumed the dimension of disaggregation of the country into a three-region federal design with the bifurcation of the Southern protectorate into Western and Eastern regions in 1935. In 1963 the Mid-Western region was carved out of the Western region and thereby bringing the number of the federating units to four.

On 27 May 1967, General Yakubu Gowon dissolved the regions and created twelve states to replace them. General Murtala Mohammed undertook another states-creation exercise on 3 February, 1976 when
the country was further disaggregated into 19 states and a federal capital territory. General Ibrahim Badamosi Babangida increased the number of states to twenty one on 23 September, 1987 and further to thirty states on 27 Aug 1991. The current thirty-six states structure was bequeathed to the nation by General Sani Abacha on 1 Oct 1996. See Table 1 below as well as Ekpo (1999).

The rate of fragmentation of the polity and the number of federating units that emerged in the process are quite freighting especially when viewed within the context of preference convergences, Nigeria’s geographical sphere, population and fiscal viability of the units, macroeconomic challenges and fiscal management as well as allocative efficiency.

<table>
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<tr>
<th>Date</th>
<th>Northern Nigeria</th>
<th>Southern Nigeria</th>
<th>Total</th>
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<tr>
<td>1914</td>
<td>1 Protectorate</td>
<td>1 Protectorate</td>
<td>2</td>
<td></td>
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<tr>
<td>1993-1939</td>
<td>1 Group of Province</td>
<td>2 Groups of Provinces (East and West)</td>
<td>3</td>
<td>Native, Authority Ordinance</td>
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<tr>
<td>1946</td>
<td>1 Region (Northern Region)</td>
<td>2 Regions (East &amp; West)</td>
<td>3</td>
<td>Notice No. 43 of 1933</td>
</tr>
<tr>
<td></td>
<td>12 Provinces</td>
<td>11 Provinces</td>
<td>23</td>
<td>Notice No. 1725 of 1938</td>
</tr>
<tr>
<td></td>
<td>39 Divisions</td>
<td>44 Divisions</td>
<td>83</td>
<td>Notice No. 17 of 1943</td>
</tr>
<tr>
<td>1963</td>
<td>1 Region (Northern Region)</td>
<td>3 Regions (East, West and Mid-West)</td>
<td>4</td>
<td>The Mid-West Region</td>
</tr>
<tr>
<td></td>
<td>14 Provinces</td>
<td>21 Provinces</td>
<td>35</td>
<td>Transitional Provisional Act No. 19, 1963</td>
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<tr>
<td></td>
<td>41 Divisions</td>
<td>55 Divisions</td>
<td>96</td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td>6 States 41 Divisions</td>
<td>6 States 55 Divisions</td>
<td>12</td>
<td>State (Creation and Transitional Provisional) Decree 14, 1967</td>
</tr>
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<td></td>
<td></td>
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<td>96</td>
<td></td>
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<tr>
<td>1976</td>
<td>10 States 152 Local Governments</td>
<td>9 States 148 Local Governments</td>
<td>19</td>
<td>State (Creation and Transitional Provisional) Decree 14, 1976</td>
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Thus, one is persuaded to embark on a search mission of the justifications for multiplicity of the number of lower-level governments. Whereas the amalgamation of 1914 was conceived and executed for administrative convenience of the colonial masters and economic ‘efficiency’ incidental to it the creation of Eastern, Western and Mid-Western regions may have been based on efficiency in resource allocation, preference convergence and fiscal viability aside political considerations. In other words one can state that politics and economics were the guiding principles of structural design and redesign of Nigeria in 1914, 1935 and 1964. That same position would stand inverted for the subsequent states-creation exercises. The twelve states structure, for instance was borne out of political considerations rationalised under one guise or the other. There are three possible explanations to that; ‘defeat’ of Biafra during the civil war, maintain ‘indivisibility’ of Nigeria and enthronement of dubious, ambiguous and frivolous model of revenue allocation.

The first view could be justified on the ground that the division of the erstwhile Eastern region into East Central, Rivers and South Eastern states severed the Biafran territory while at the same time giving the ethnic minorities of the Eastern region separate identities that they had been craving for in the years. With this move they were able to pledge loyalty to the federal government whose troops
entered through those states to the detriment of Biafra. The federal government may not have also wished to have a state that is big enough to stand on its own to challenge the federal government and possibly contemplate secession. This justified the second view. This way, implicit in the creation of the twelve states was a ‘divide-and-rule’ doctrine which would possibly serve as instrument of domination over the federating units by the federal government. The most interesting view on the creation of the twelve states appears to be its coincidence with the enthronement of a two principle formula of revenue allocation.

The Gowon’s regime did not only identify population and equalit-of-states as principles of revenue allocation but also went ahead to assign each of them a weight of fifty per cent for the Distributable Pool. This becomes much more interesting considering that the North and South now have equal number of states (six in each region) and that the revenue sharing would be based on the highly disputed figures of 1963 census that put the North at an advantage over the South. It is also worthy of note that the subsequent state-creation exercises ensured that the supremacy of the North is maintained by creating more states in the erstwhile Northern protectorate than in the South, as well as in making sure that the principles of revenue allocation favour them. Otherwise the controversial principles of revenue allocation such as Population and Equality-of-states (which also had high weightage) shouldn’t have been retained for almost fifty years. It has also been observed that virtually all the military regimes got themselves involved with states creation programmes, the only exception being the twenty month old Buhari’s government and twelve-month old administration of Abdul Salami Abubakar. This gives the impression that dictatorship and military fiat were the instrumentality of states creation in Nigeria. In the absence of any logical explanation for the multiplicity of the federating units in Nigeria it may be concluded that creation of some states and local government areas may have largely been used as means of rewarding or placating individuals or group of individuals as well as a weapon of usurping the fiscal powers of the lower-level governments. Another point of interest here is that up to 1967 the
Southern part of the country had more regions and divisions than the North and thereafter, the whole picture changed dramatically as a result of the application of politically motivated states and local government creations. Exercises See table 1

The structure of Nigeria’s federal arrangement totally violates the principles of size determination as enunciated by Tiebout (1956). Most of these principles as mentioned earlier anchor on preference convergence in terms of quality and quantity of public goods (services), cultural homogeneity, value system, spatial limitation of costs and benefits, fiscal viability etc. Going by this, most of the states and local government areas creation exercises since 1987 were unnecessary particularly because they are not fiscally viable, Nwaogwugwu (2006). Interestingly the six-geo-political zones configuration seem to capture what looks like an ideal structure for the Nigerian federalism as it will reasonably pass all tests for size determination for a federal arrangement.

4.2 The Assignment Problem
The assignment problem is a term in fiscal federalism that refers to the revenue-expenditure power devolution in a federal polity and is predicated on centripetal and centrifugal forces, homogeneous and heterogeneous factors as well as preference convergence or divergence. These factors that form the building block of every federal set-up determine whether the people wants union or unity just as the extent of power devolution depends on their manifestations. They are precursors to the placement of any revenue or expenditure item in the exclusive, concurrent or residual list and their role in the working of a federal polity derive from the theory of club, Tiebout (1956). Although assignment problem generally apply to federal polities it is being currently mimicked by unitary states like United Kingdom, South Africa, Kenya and others.

Spatial limitation of costs and benefits is also contiguous to revenue and expenditure power sharing. Public goods and services (and quasi-public goods) that have national sphere of cost and benefits are normally assigned exclusively to the national (federal) government
while those with regional or local cost and benefit areas fall exclusively within the domain of the regions (states/provinces as the case may be) and local government areas respectively and are therefore allowed to perform such functions. Nevertheless, the existence of externalities requires that some functions be performed by more than one government simultaneously and hence once the assignment problem has been decided on the basis of constitutionality of such functions that naturally have spill-over effects will be domiciled in the concurrent list (Agioibenebo 1999).

Before the states creation exercise of 1967 and the infamous decree number 13 of 1970 that centralised most of the resource bases, the regions controlled most of the productive resource bases just as they performed most of the expenditure obligations (Nwaogwugwu 1996 and Anyanwu 1999). Progressively however, the most resourceful and elastic revenue bases such as import and export duties, excise duties, mining rents and royalties, petroleum profit tax, value added tax and company income tax were put under the legislative and administrative jurisdiction of the federal government. This left the state and local governments with the less productive and less elastic revenue bases such as personal income tax, pools and other betting taxes, motor vehicle and drivers' licenses property taxes and rating etc. (FGR (1979, 1999). This is the import of the categorical statement of Anyanwu (1999) that the subnational governments in Nigeria rely on taxes that do not change with the economic activity and prices unlike what we have at the federal level. This also explains why the share of these governments in the total expenditure of the federation is less than 20% in many years leaving the balance in the hands of the federal government. See Nwaogwugwu (2007b and 2017) and CBN (2016).

Conversely the assignment of expenditure powers closely follows the doctrine of spatial limitation of costs and benefits and in the process it decentralised expenditure activities. This way functions such as defence, foreign affairs international trade, currency and coinage fall under the domain of the federal government while health, education, statistics, electricity etc. are in the concurrent list. In general, the
states are assigned the most expansive and most expensive expenditure actives to the lower level governments. The natural fallout of this is non-correspondence in revenue and expenditure. In fact, in some years the share of the lower level governments in the total expenditure of the federation was close to 50 per cent (Nwaogwugwu 2017, CBN 2016).

Thus the constitutions that assigned scanty revenue bases to the states and local governments also permitted huge expenditure obligations to fall under their domain. It should however, be pointed out that the problem of mismatch between revenue bases and expenditure functions was not quite pronounces during the era of ‘regionalism’, that is up to 1966 (FGN 1963, 1980). Another shocking but interesting observation in Nigeria is that functions such as; economic planning and development, development of agriculture and natural resources as well as social welfare, sewage and refuse disposal are all under the list of the Local Governments. But the fact is in the public domain that the central government has usurped the power of the local authorities with respect to economic planning just like it has almost pushed the states out of their shared responsibility of electricity generation, transmission and distribution.

And again, the federal government and the states have also encroached on the agricultural sector which is the expenditure area of the local government authorities just like states have dominated the local functions of the local authorities with respect to social welfare, sewage and refuse disposal. The continuous overshooting of their (federal and states) sphere of expenditure operation can only be an attempt to justify the huge resources at their disposal which ordinarily should be transferred to the appropriate tier of decision-making to enable it discharge its constitutional responsibility.

Prior to 1981, vertical Revenue Allocation was on the basis of individual revenue head. However, with the establishment of the Federation Account by the 1979 constitution and following the constitutional distribution of functions, the 1981 Act for revenue allocation, a model for federal-states revenue sharing was put in
place. The Act provided the following formula for vertical revenue allocation for the federation account; federal Government 55%, State Governments 30.5%, Local Governments 10%, special fund 4.5%. This was later altered by Decree 49 of 1989 as follows; federal Government 55%, State Government 32.5%, Local Government 10%, special fund 2.5%. In January 1992 the federal government by virtue of decree No 3 of 1992 assigned; federal Government 50%, State Government 25%, Local Government 20%, special fund 7%. The formula currently in use is as follows; Federal Government 48.5% State Government 24.0% Local Government 20.0% Special Fund 7.5% (Danjuma 1994, Ojo 2010 and Akujuru 2015). The inconsistency of the government in designing an appropriate model for vertical revenue sharing is self-evident from the above and reveals the arbitrariness and ambiguity in vertical resource devolution in Nigeria. It may be pointed out that the 13% derivation fund is not part of vertical allocation. It is in fact a first line deduction of the Federation Account just like the cost of revenue collection, ecological fund of the federation etc. It is should be part of the Non-Distributable Pool Account.

4.3 The Distributable Pool and Non-Distributable Pool Accounts

4.3.1 The Non-Distributable Pool Account
The Non-Distributable Pool Account (N-DPA) is the foremost pool of revenue allocation in Nigeria. It was established by the Philipson Commission of 1949 even though it was not called that name it adopted the criterion of derivation was adopted for revenue allocation (FGN1949). The name Non-Distributable Pool Account (N-DPA) was given to this Pool by the Raiseman-Tress Commission of 1958 (FGN 1958).

The N-DPA consisted of the revenue bases allocated to the regions or states exclusively on the basis of ‘derivation’ principle. Hence, the term Non-Distributable implies that the regions or states did not share such revenue with their counterparts. Put differently, it simply means that resources of this account is distributed among the federating
units strictly on the basis of origin of such revenues after deducting the cost of collection.

Between 1956 and 1959 this pool comprised of revenue from; import duties on tobacco, petroleum products, beer, wine, portable spirits, and Imports Unspecified and export duties. Between 1959 and 1965 its revenue base depleted and it was limited to; import duties on tobacco, petroleum products, Imports Unspecified and export duties in addition to 62.50% of mining rents and royalties which was reduced to 56.25% in 1966. The revenue base of the DPA contracted further between 1970 and 1975 when it was limited to import duties on tobacco and petroleum products, 60% of export duties in addition to 47.37% of mining rents and royalties.

The federal government depleted this account further when it allowed only 20% of in-shore mining rents and royalties to be shared on the basis of derivation. The 1979 constitution scrapped the N-DPA by transferring whatever was left of the account into the Federation Account. Thus, from that year the Non-DPA which had become synonymous with derivation principle was expressed as a percentage of the Federation Account. It was allocated 2% by the Okigbo Commission (FGN 1980) and was raised to 13% by the 1999 constitution.

The changes that occurred in the N-DPA appear to have been occasioned by the determination of the federal government to diffuse the importance of derivation principle in horizontal allocation. This may have been informed by the fact that during the earlier period when up to 100% of aggregate statutory transfers were made from this pool, the poorer region of the North could not have access to the national revenue the way they would have preferred to. From equity, efficiency and national interest points of view it is logical that other regions with low fiscal capacity should benefit from ‘national resources’. But a blatant application of that effort that reduced transfers based on derivation from 100% in 1959 to 4.71% (2% of the Federation Account) in 1979 was not sensitive to the feelings of other regions (Nwaogwugwu 1996).
It suffices to also mention that each time the resource base of the N-DPA deleted those revenue heads were simply transferred to the resource base of the federal government (for legal basis, administration and revenue retention). See decrees 15 and 13 of 1967 and 1970 respectively. In event of such revenue heads being transferred to the Distributable Pool Account the federal government arrogated to itself the legal basis of such revenue bases as well the right to administration. See decree No 6 of 1975 and the constitutions of federal Republic of Nigeria, 1979 and 1999.

Another issue of grave relevance here is that there was no evidence of any form of negotiation between the federal government and the federating units (especially from 1967) to establish any good intention of the federal government in assigning to itself those resource bases. The centre just ‘grabbed’ those revenue heads by fiat or decree even though most of them are not supposed to be federal revenue either by character or property. In fact most of them manifest properties of local or regional cost and benefit sphere which logically make them resource bases of lower-level governments. The depletion of the Non-Distributable Pool Account and diffusion of the principle of derivation could be wholly and squarely seen as the reason why the Nigeria’s federal set-up transformed from the operation of a functional federal arrangement to a ‘centralistic’ or ‘unitary’ federalism which is characterised by dysfunctionalism.

4.3.2 The Distributable Pool Account
This is the second pool for horizontal revenue allocation. Revenue flow into this Account is shared between the states and among the local government areas on the basis of principles other than derivation such as population, equality-of-states and school enrolment ratio. The Distributable Pool Account(DPA)was created by the Raiseman-Tress Commission of 1958 with 100% of duties on “Imports Unspecified” and 37.50 % of the states’ share in Mining Rents and Royalties (FGN 1958). In 1966, the share of Mining rent and royalties paid into this Account rose to 43.75% and further to 52.63% by between 1970 and 1975. During this period, the DPA was also boosted with the inclusion on its revenue base of 100% of excise
duties due to the states as well as 40% of the states’ share of export duties. Between 1976 and 1980, the DPA became the focal point of Nigeria’s fiscal federalism with the transfer of all major resource bases into it. Thus, 100% import duties of petroleum products, tobacco, Imports Unspecified, excise duties, export duties, off shore mining rents and royalties and 80% in-shore mining rents and royalties were paid into this pool. This Account was renamed Federal-States Joint Account in 1976 and to Federation Account by the 1979 constitution of the Federal Republic of Nigeria. This way, the DPA had no specific resource base but was expressed as a percentage of the Federation Account as may be determined by the National Assembly (FGN 1999).

In addition to this traditional definition of the DPA, Value Added Tax (VAT) which was hitherto a major revenue head of the states became sharable vertically and horizontally by the creation of the VAT Pool Account in the 1980s.

4.4 The Goals and Models of Revenue Allocation
Resource devolution exercises are generally tasks that must be performed diligently by those charged with the responsibility of executing it. The objectives of revenue allocation are predetermined by the need of correcting vertical fiscal imbalances and horizontal fiscal equalisation (Musgrave 1989). Resource devolution assignments should also normally focus on bringing about growth and development as well as allocation efficiency (Agibenebo 1999). It also has the aim of ensuring standard provision of public goods and services in all the states of the federation (Sinha 1984) while encouraging increased revenue effort by all units of the federation. This way, the regions or states from where a big chunk of the revenues of the federation come from should be rewarded adequately without sacrificing the other objectives which a good system of resource devolution seeks to achieve. This therefore calls for carefulness in balancing equity and justice with fairness.

However, as Nwaogwugwu (1996) noted, while equity in revenue allocation does not mean taking away a greater proportion of the
resources of the richer federating units and transferring the same to the poorer ones, it does not also mean that that the poorer federating units should not have adequate access to the national resources. A sound equity-based approach to revenue allocation ensures that while the poorer units are not neglected the richer units must not be forced to make sacrifices more than they can bear. This, in other words, means that people living in either the backward or advanced states of the federation should feel that they are the same people united in the same federation and thus with time the policies of the federal government would mitigate the gap between them (Chelliah, 1981). This calls for gradualism in revenue allocation to avoid upsetting the status quo and thereby giving fillip to fiscal stress that has the potency of destabilising the polity.

Nigeria's revenue allocation system indeed suffers heavily on scientific rating. It neither seems to have any well-articulated objective, nor a good data base to prosecute its assignment. A typical example is the enthronegment of the highly ambiguous principles of population and equality-of-states for revenue allocation especially considering the high weightage attached to them. In this respect the observation of the Okigbo Commission in FGN (1980) becomes relevant. It noted thus that to divide funds among the states in equal parts does not promote equality especially if the endowments are not the same and existing capacities different. On purely equity grounds therefore, the principle of equality-of-states in terms of equal share to the states is a weak principle of allocation and maybe the justification for the use of this principle for equal share to the states is to be found in the context of the 'minimum responsibilities' for each unit in any level of government. Interestingly the Okigbo's Commission, in spite of the above frank observation did not only retain this principle but assigned 40% to it. This was however reduced to 30% by decree No 49 of 1989.

In this respect, Alade (1999) also noted that the different formulas that have been used for revenue allocation have consistently increased the financial powers of the federal government against the states and Local Governments. Similar argument has also been made
against the population principle which uses absolute population figures with high weightage as well, Internal revenue effort that uses actual revenue generated rather than capacity as captured by states' GDP, social development factors that uses school enrolment ratio; land mass, terrain, National Interest, Portable water etc. Indeed, Ojo (2010) captures the politics of revenue allocation in Nigeria succinctly when he said that Nigeria's horizontal revenue allocation rules give insufficient recognition to such largely non-political principles of resource devolution such as social development factor and internal revenue effort while bluntly ignoring such other technical principles as budgetary obligation, absorptive capacity, fiscal efficiency and fiscal equalizations. Clearly horizontal resource devolution in Nigeria is a political exercise.

5. Conclusion
This study is an attempt to evaluate the burning issues of Nigeria's fiscal federalism. The analysis reveals that several policy actions of the pre and post-independence governments contributed to the dysfunctional fiscal federalism in Nigeria. While the colonial masters structured the quasi and full-blown 'federal Nigeria' in line with their insidious instincts for administrative convenience and perfidious exploitative design, the post-independence governments (especially during the military era) configured the 'centralistic or 'unitary federal set-up to pursue the treacherous goal of dominance in the spheres of political geography, politics, economy, revenue sharing, bureaucracy and the entire machineries of governance through states creation and revenue allocation.

The response to this Machiavellian calculations and practices has been agitations and clamour for resource control, demand for restructuring of the polity and vociferous call a 'negotiated' federal arrangement as well as the desire in some quarters for the dissolution of the of the federal Nigeria state. These are demonstrations that centralisation of revenue and expenditure powers have done more harm than good in the body politics of Nigeria. Revenue allocation in Nigeria has heightened the tension in the country rather than lessen it; it has caused an invigorated animosity among the
component parts rather than dilute it and it has increased the cost of governance instead of reducing it. Federalism seems to have failed Nigerians because of politics of revenue allocation. The Nigerian government must be pragmatic in dealing with matters of revenue allocation to save the nation from further drift into extreme disorder.
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