

POLITICS OF REVENUE ALLOCATION IN NIGERIA: ISSUES AND PROSPECTS

BY

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Abstract

Revenue allocation among the three tiers of government in Nigeria has been a subject of hot debate because of the political nature of the exercise. Several attempts made by various administrations to evolve an acceptable and all embracing revenue allocation formulae for the country were yet to create the desired rapprochement among contentious groups. This paper examined the issue of revenue allocation and identified major challenges which are embedded in it as well as outlining its prospects. It employed both descriptive and historical methods to comprehend the subject matter under discussion. It is the position of the paper that in a bid to resolve the controversial issues surrounding the contentious revenue allocation in Nigeria, a high level of fiscal decentralization is required to replace the unfair revenue sharing formula currently in operation. Beside recommending a substantial review of the fiscal system, the paper concluded that the formulae for revenue sharing in Nigeria should be guided by national interest which should super cede individual or primordial interest and sentiments.

Keywords: Revenue, allocation, political, acceptable and embracing

Introduction

Every federation has a central authority to which the other authorities in the lower tier of government federate. A federal constitution will also usually specify the financial arrangements which have been agreed to govern the activities of both the central government and the federating units, in other words, how resources are to be mobilized, collected and shared not only between the central and other units but also how they are to be shared among the federating units. Perhaps the most important issue in fiscal federalism is revenue allocation, the sharing of national revenue among the various tiers of government (vertical revenue sharing) as well as the distribution of revenue among the federating units (that is horizontal revenue allocation) (Nyong, 2004). In most federally constituted political entities, power sharing and revenue allocation between the central government and the federating units remain very contentious (Kayode, 1993). Nigeria has had and still has these issues, among others, in the centre of political debates since independence in 1960 (Mbanefoh, 1993). This is evidenced in the number of public commissions and committees set up to study and advice various administrations on the subject as well as enabling laws made for the purposes of revenue sharing. The study examined the contending issues of revenue allocation in Nigeria and how these pose challenges to the corporate existence of Nigeria as a nation.

Conceptual issues

Revenue allocation is conceived as the transfer of financial resources from one tier of government to another, in the same country, under pre-determined criteria or in any agreement to which all the benefiting units have subscribed. According to Ikeji's (2011), revenue allocation involves manner of distributing centrally generated revenue among levels of government as well as how each level shares the allocated fund to its component parts. It connotes a practice whereby one level of government turns over a portion of the revenue it generates from taxation and other sources to another government level which is usually a lower level of government (Sherif, 2018). In Nigeria, revenue allocation refers to the practice where the centrally generated and controlled revenues are shared among federal, states and local governments as stipulated by the constitution without determining how the fund should be used. It is a statutory distribution of revenue from the Federation Account among the different levels of government (Report of the Political Bureau, 1987). So conceived, the implication is that there are at least two different levels of governmental authorities in the political unit or country and that there may even be more levels or tiers of government. Another implication is that there exists an agreement acceptable to all the tiers of government as to how the sharing is to be done and that such agreement that exists (pre-determine) even before the revenue is available to be shared. When it follows normal course, revenue sharing makes for a better relationship between the federal and the federating units. It is the starting point for decentralization of government powers and restoration of balance among all tiers of government (Sherif, 2018).

The Constitution and the Principles of Revenue Allocation

Every constitution in a federal system contains pre-determined rules for the collection, custody and disposal of revenues as well as spell out to each level of government the sources from which it can lawfully derive independent revenue (Ubok- Udom & Ndiyo 2004). Where revenues are to be collected before being shared it is normal for such collection to be undertaken at the highest tier of government or by the tier that is coordinating the activities of the component units in order to generate confidence among the units (Taiwo, 1999). Where revenue is shared before it is collected, that is where sources of revenue are allocated to each tier of government-the understanding is that each tier will keep within the limits of the resources allocated and not seek directly or indirectly to collect revenues from sources not allocated to it (Imch, 1994). The constitution at times contains and often includes an agreement on how to allocate revenue and revenue sources to each unit but not the size of revenue. Once the conditions of sharing have been determined, it is in the interest of all tiers to work to increase the size of revenue because what each unit gets depends on the size of revenue available to be shared.

There are statutory provisions for revenue sharing and powers to generate revenue through specific sources. The 1979 and 1999 Constitutions of the Federal Republic of Nigeria, established the type of fiscal relationships that would exist among the various levels of government. For example, section 149(2) of the 1979 Constitution or section 162(3) of the 1999 Constitution stipulates that any amount standing to the credit of the Federation Account shall be distributed among the federation, state governments and the local government councils in each

state on such terms and in such manner as may be prescribed by the National Assembly.

Similarly, the 1999 Constitution provided for states- local government financial relationship under section 162 sub-sections. This section states the amount standing to the credit of the local government councils of a state on such terms and in such manner as may be prescribed by the House of Assembly of a state. Apart from the constitutional provisions of external revenue to local government, Model Financial Memoranda for Local Government (1991) and section 45 of Decree 19 No 36 of 1998 and the 1999 Constitution as contained in the fourth schedule provide for internal sources of revenue generation by Nigeria's local governments.

Despite all these constitutional provisions, other tiers of governments almost invariably depend in part and sometimes very heavily upon transfers from federal governments to finance the services for which they are responsible (Omelle, 2004). This is due to the fact that in most countries whether formally federal or not, there is clearly vertical competition between levels of government for revenue and perhaps because as a rule local government have access only to those revenue sources that higher levels of government do not want for themselves.

Under section 149 of the outdated 1979 constitution, provision is made for the creation of "Federation Account" from which allocations of revenue are made to the three tiers of government. The 1999 constitution makes a similar provision in section 162. But whereas the 1979 constitution left it for the National Assembly to determine the principles to be employed in allocating revenue to each tier and to state or local government councils, the 1999 constitution went further to provide the

principles which the government should consider thus leaving it to the National Assembly to determine only the weights which should be attached to each principle. In the 1979 constitution both the principles and weight were to be determined by the National Assembly. The president, upon receiving advice from the Revenue Mobilization Allocation and Fiscal Commission, shall place before the National Assembly proposals for revenue allocation from the federation account and in determining the formula, the National Assembly shall take into account the allocation principles especially those of population, equality of states, internal revenue generation, land mass, terrain as well as population density. In addition to these provisions section 162 (2) of 1999 constitution even provides that at least 13% revenue should be allocated on derivation principle, that is to say that the weight attached to the principle of derivation is at least 13% thus trying to assuage oil producing states that have been complaining about the allocation of 1.5% from derivation before now. It should be noted that this provision is not in respect of oil mineral alone but it applies to all other minerals and natural resources which contribute directly to the federation account.

It is also provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than thirteen percent of the revenue accruing to the Federation Account directly from any natural resources. The bases or principles upon which revenue is to be distributed to the three tiers of government in Nigeria and among states and local government areas as provided by the 1999 constitution include derivation, population, equality of states, internal revenue generation, land mass, terrain and population density.

The constitution does not, however, compel the National Assembly to use the above principles only but merely says that

whatever principles are prescribed by the National Assembly should include these ones. It would be unlawful for vertical allocation to be made to any beneficiary other than the federal, states and local governments although provisions must be made for derivation. There is nothing in the 1999 constitution which forbids the National Assembly from allocating funds for these and other National needs through appropriate Acts of the Assembly provided such provisions are not made directly from the federation account.

The current vertical allocation sharing formula is as follows:

- | | | |
|-----------------------|---|--------|
| 1. Federal Government | - | 52.68% |
| 2. State Government | - | 26.72 |
| 3. Local Government | - | 20.60 |

It is pertinent at this point to note that derivation is not based on the total amount in the federation account but on that part of it which is derived from mineral resources -example crude oil. It is presumed that the derivation allocation is set aside before vertical allocation as indicated above is made.

There are allocations that are mandatory by the constitution. Such allocations are judiciable. That is to say that they are enforceable in law if the president or any other authority fails to make them. When the Obasanjo administration, for example, failed to release the allocation for Lagos State Government as required by the constitution, the Lagos State Government went to the Supreme Court to demand for it. The Supreme Court ordered the release of the funds. There are however, some allocations which the president can make to states which are not enforceable in law. To such, is discretionary allocation; they are made often from the contingency fund in time of natural disasters at the discretion of the president who determines the

nature and size of the transfer, if he decides not to do transfer, the beneficiary cannot compel him to do so. Furthermore, section 164 (1) of the 1999 constitution empowers the president to make grants to state government under terms approved by the National Assembly and such grants are discretionary and not mandatory.

The 1999 Constitution as Omelle (2004) notes is a refurbishment of the 1979 Constitution, modeled after the American presidential system without the required political will to address the geo-political structure of the Nigerian federation, as did Canada, Australia and the U.S.A itself. Omelle (2004) observes that the above three federations, there is hardly any federating component (state) or region as helplessly dependent financially on the centre as we have it in Nigeria. In the United States, for instance, some states pay higher wages to their workers than some federal staff doing similar jobs. In Canada, the region of Quebec is almost independent of the federal treasury, owing to its resourcefulness and Canada's formula of revenue allocation.

Before the 1979 constitution it was common for government to institute ad-hoc fiscal commissions to study and advise them whenever the need arose to alter the fiscal arrangements in the country. At least nine of such ad-hoc commissions had been established beside other extant laws. The ad-hoc commissions and other provisions made in an attempt to arrive at acceptable revenue allocation formulae as Arowolo (2011) opines are:

1. Philipson Commission (1946): This commission recommended the use of derivation and even development as criteria for distribution of revenue. By derivation, the commission means each unit of

government would receive from the central purse the same portion it has.

2. Hickos-Philipson Commission (1951): This commission recommended need, derivation, independent revenue or fiscal autonomy and national interests as the criteria for revenue sharing.
3. Chicks Commission (1953): The commission recommended derivation.
4. Rarsman Commission (1957): It recommended need, balanced development and minimum responsibility. Percentage division of 0% to the north, 31% to the east, 24% to the west and 5% to Southern Cameroon.
5. The Binns Commission (1965): This commission rejected the principles of need and derivation. In its place, it proposed regional financial comparability and percentage division of 42% to the north, 30% to the east, 20% to the west and 8% to the mid-west.
6. Dina Commission (1969): It recommended national minimum standards, balanced development in the allocation of the states joint account and basic need.
7. Aboyade Technical Committee (1977): It recommended a national minimum standard for national integration (22%) equality of access to development opportunities (25%). absorptive capacity (20%), fiscal efficiency (15%) and independent revenue effort (18%). Other criteria are: 57% to Federal Government, 30% to State Governments, 10% to Local Governments and 3% to a special fund.
8. Okigbo Committee (1980): It recommended percentages on principles: Population (4%), equality (4%), social development (15%) and internal revenue effort (5%).

Percentages for governments: Federal (53%), States (30%), Local Governments (10%), Special Fund (75%).

9. Danjuma Commission (1988): It recommended percentages, Federal (50%), States (30%), Local Government (15%), Special Fund (5%).

Other laws and decrees on revenue allocation include Decree 15 of 1967, Decree 13 of 1970, Decree 9 of 1971, Decree 6 of 1975, Decree 7 of 1975 and others (Uwat&Umoh, 2004).

There was revenue allocation principle and formula modification again 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 (Uwatt & Umoh, 2004).

The 1999 constitution lists as one of the 14 federal executive bodies on Third schedule - Part 1-Revenue Mobilization, Allocation and Fiscal Commission which is created under section 153 of that constitution along with other thirteen bodies. The idea of a standing executive body was first contained in the suspended 1989 constitution. The functions of the body include to:

- Monitor the accruals to and disbursement of revenue from the federation account.
- Review, from time to time, the revenue allocation formulae and principles in operation to ensure conformity with changing realities. Provided that any revenue formula which has been accepted by the National Assembly shall remain in force for a period of

not less than five years from the date of commencement of the Act.

- Advise the Federal and State governments on fiscal efficiency and methods by which their revenue can be increased.
- Determine the remuneration for political office holders, including the President, Vice-President, Governors, Deputy Governors, Minister, Special Advisers, Legislator, and the Office mentioned in section 84 and 124.
- Such other functions as conferred on the commission by the constitution or any Act of the National Assembly.

It is important to note that:

- i. Both in the 1979 and 1999 constitutions, responsibility for fixing revenue sharing formula is that of the National Assembly but it cannot initiate such a bill.
- ii. It is the President who will initiate a bill to the National Assembly for the purpose upon the advice of the Revenue Mobilization, Allocation and Fiscal Commission (1999 constitution).
- iii. The Act of National Assembly which enacts a formula will remain in force for at least 5 years. The 1979 constitution did not prescribe a minimum life such as Act and it did not require the President to act only on the advice of anybody before sending a bill to the National Assembly in respect of revenue allocation.
- iv. Salaries of political appointees are now fixed by an independent executive body although it can be said that since the body also fixes salaries and remunerations for

their positions, their decision may not be totally altruistic.

- v. Before 1979, the Distributable Pool Account (DPA) was created in 1959 following the recommendations of Raisman's Commission. All major heads of revenue were divided into 3 parts, namely:

- (a) To the regions on derivation

- (b) Federal government

- (c) Distributable Pool Account (DPA) for sharing among the regions.

Thus, the DPA was a useful means of horizontal allocation among the regions or states whereas on the other hand its successor, federation account, facilitated vertical allocation among the three tiers of government-federal, states and local government.

Following the above conditions, the Commissions have often recommended that revenue accruable to the federation as a whole should be redistributed among the units based on the following principles:

1. Principle of Derivation: This means that federally generated revenue should be shared in proportion to the derivation or revenue mobilization or contribution from the units. The higher the contribution, the greater the allocation;
2. Principle of Equality: This means that all the federating units should be seen as equal in status, and equal amount of funds should be allocated to each of them;
3. Principle of even development: This means that all the units should be allocated equivalent amount of resources

so as to promote balanced or even development. The areas of priority usually include infrastructure like roads, electricity, pipe-born water, social amenities like hospitals, schools, and handicapped centres;

4. Principle of national integration: That is, allocation of revenue to the units so as to provide them with a sense of belonging, regardless of their limited capacities,
5. Principle of fiscal efficiency: That is to say, revenue should be shared in a manner to encourage the units to mobilize more revenue, especially through taxation and prudent spending through budget;
6. Criterion of school enrolment: This means using the total number of registered students in primary and post-primary institutions as the basis for determining the ratio of revenue allocation;
7. Criterion of population: This means using the basic demographic data of adults taxable persons and residents in the state. Sometimes all persons are used, regardless of age, sex, or permanent residency at the time of census. The population criterion is used to indicate the extent of Government's responsibility to the people.

Upon all the attempts to generate an acceptable formula for the sharing of revenue both vertically and horizontally in the country, the issue of revenue allocation is still shrouded in controversy. The frequency of changes in revenue allocation formula indicates that the search for appropriate and acceptable revenue allocation model is a continuous process (Nyong. 2004) and the change is continuous (Kayode, 1993; Mbanefoh, 1993). Despite the fact that many commissions had been set in the past to fashion out a formula that will be acceptable to all levels of government, not much has been achieved. This conclusion was

affirmed by the Political Bureau (1987) when it maintained that revenue allocation exercise has been one of the most contentious and controversial issues in the nation's political life. The report argued that though many attempts had been made to devise an acceptable formula for the component units of the country, each of the attempts is more remembered for the controversies it generated than issues settled.

The report was further confirmed by Ewetan (2012) who opines that revenue allocation is one of the most controversial issues Nigeria's fiscal federalism as there is no generally acceptable formula for both vertical and horizontal distribution of revenue. The contentions most of the time anchored on enormous power that federal government wields on revenue allocation issue that tends to make other tiers of government its subordinate. Thus, the formula only crippled the revenue generation capacity of each state, as state rely wholly on the monthly allocation from the federation account (Kayode, 1993). The implication of this revenue allocation dependence is that it limits the capacities of states and local governments to provide public goods needed to promote and sustain governance (Emenuga, 1993). This is because the federal government takes the lion share of centrally collected revenue based on the current formula and other retained revenue, leaving state and local governments with small shares compared to their assigned functions (Aigbokhan, 1999; Ewetan, 2012).

Besides, as Uwatt & Umoh (2004) note 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.

Condition Necessary for Revenue Allocation in Nigeria

There are many good reasons why revenue is shared in a federal polity especially in a federation as big and diverse as Nigeria. Boadway (1990) and Shah (1983) for instance have 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. Generally, it is often more efficient and cheaper to collect revenue at a point than to incur expenditure and make payments at several points. In Nigeria the federal government is the collector of most of the revenue which goes into the federation account, whereas the states and local governments are all expenditure points. In a federal system, it is assumed that centralized collection and decentralized spending are efficient ways to manage finance. Boadway (1990) specifically 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 redressing differential net fiscal benefits across states and local government areas, some states and local government areas are better endowed than others with natural resources and thus have better access to an enlarged revenue base. The process of revenue allocation promotes even development and ensures that all parts of the federation grow as evenly as possible as regional and local differences are being taken into account. The weak areas are supported financially and otherwise encouraged to move up instead of allowing residents in such areas to be tempted to move out to more developed areas. Such movements often cause social and political upheavals and make the problems of urbanization more difficult.

Revenue allocation creates a sense of belonging and where people feel a sense of belonging their commitment to the nation state is stronger. Sharing of resources is a certain way to encourage such feelings and ultimately promote a spirit of oneness and patriotic zeal nationwide. Sharing of resources equally favours organizational and political innovations and encourages more efficient politics as citizens have more influence. In any case a state that is not efficient today may, through the discovery of some natural resourceS, become efficient in the future.

Execution of national programmes is one of the reasons advanced for the present formula of revenue allocation in Nigeria. It could be noted that where the constitution so permits as it is in Nigeria, it is easier to finance important national projects from centrally collected and managed funds than to

finance them through taxes or levies either on the populace or on federating units. It lowers planning and administrative costs.

Challenges of Revenue Allocation in Nigeria

Some federating units are easily satisfied with what they get thereby/ignoring the necessity to tap additional internal revenue sources. This is already becoming a problem in Nigeria. Federation allocation which should be supplement to internally generated revenue for federating units has become the main source of funding for many states and local governments. The result is slow pace of development nationwide due to inadequate funding while many sources of revenue remain untapped. Furthermore, it is observed that the incessant demand for the creation of new states and local governments in the country is driven more by a desire to benefit from a system of revenue sharing which favours small states and otherwise unviable units because more than 47% of allocation for states and local governments is distributed on the basis of equality. While the creation of new administrative units at both state and local government levels is good for the country, creating them too many at a time and too close in time has diverted a lot of resources from development to maintenance of administrative structures.

Revenue sharing in Nigeria encourages dysfunctions of administration caused by military intervention, ethnicity and discrimination against non-indigenes, which together defy the efforts at equitable revenue allocation. The fiscal discontinuities borne by political instability manifests in rampant governmental changes by successful coup plotters, who install military regimes that disrupt previous fiscal policies and arrangements. This has always resulted in manipulation of revenue allocation

machinery from sources of revenue derivation in the name of attempts to secure equality and equitable development among the constituent units of the federation.

Revenue allocation encourages multiplication of states and local governments that are revenue allocation dependent, rather than being revenue generating fiscally and self-reliant. Such states and local governments always fare badly when there is economic depression that adversely affect the revenue generating capacities of the federating units, and the nation as a whole. As a result, there is always increasing financial obligations of the various levels of government while revenue allocation is dwindling at the same momentum.

The geometrical increase in unskilled and redundant population which is used as part of the criteria for revenue allocation leads to the problem of mass poverty, mass illiteracy, problem of mass unemployment and limited absorptive capacities for the teeming population of unemployed youths. This in turn hinders revenue generation efforts and account for fiscal disequilibrium among the federating units and lower per capital income that distort attempts at even development.

Revenue allocation in Nigeria has led to lack of solid diversified revenue generating base, and dependence on monocultural economy dominated by crude oil production and exportation. Consequently, there is observed uneven distribution of infrastructure like good network of macadamized roads, electricity, and pipe borne water and facilities that can integrate the urban and rural areas for balanced development. This again compounds the problem of unequal revenue generation capacity.

Population census is a key factor in development planning. However, as Anyanwu (1997) rightly noted, the widespread consciousness of the link between population and revenue allocation has resulted in the politicization of census in Nigeria. Similarly, Omelle (2004) argues that some of the principles upon which revenue allocation is based are susceptible to abuse in a country like Nigeria. He cited the principle of population as an example where such abuse could take place due to the fact that the population statistics have remained a subject of dubious manipulations, thereby rendering officially declared population figures inaccurate and suspicious. According to Inekwe (2005) attempts by the National Population Commission (NPC) to sensitize the populace that population census is not meant for revenue allocation is like a child's play. This to a large extent explains why Nigeria is unable to conduct a reliable population census.

Excessive allocation of revenue to the federal government is a major cause of concern to many Nigerians. Given the fact that the states and local governments make up the federation and that it is in these units of the country that people reside, it is difficult to justify the allocation of less than 48% of the Federation Account to all of these units together and as much as more than 52% to the federal government alone (Akpakpan, 2004). Concurring, as it were, with Akpakpan, Salami (2011) argues that the current revenue allocation formula allocates more funds to the federal government at the detriment of the states and local governments. Nigeria's vertical revenue sharing formula allocates too much money to the Federal government. That has been the main cause of every ethnic group fighting to be in control of the centre.

Besides, the practice of the federating units not generating their own fund but await monthly allocation from the Federation Account, according to Oladele (2015) has made them not to be accountable to the citizens. As it is today, virtually all the States and Local governments in Nigeria blame their inability to deliver the needed dividend of democracy on the Federal government that is, not getting enough fund from the Federation Account.

There is inadequate attention to the development of executive capacity, especially at the state and local government levels. This has to do with the quality of human resources available to the states and local government for their activities. It is the critical factor in the performance of any organization, and so where it does not receive sufficient attention not much is achieved, the available material resources notwithstanding (Akpakpan, 2004). The result is always poor management of financial resources and poor political commitment. Supporting this fact, Oladele (2015) noted that even where unviable states exist, the fact that monies meant for the development of states are stolen by political representatives and a few collaborators in the bureaucracy further reduces the impact of the allocated revenues. Just as individuals at the national level have been arrested, prosecuted and jailed for corruption, so have governors been interrogated by the Economic and Financial Crimes Commission (EFCC) on issues bordering on financial impropriety and breach of trust.

Prospects

The nation's economic potentialities, such as the discovery of new oil wells, the availability of raw materials for iron and steel production and the diversification in the oil industry to fertilizer,

liquefied gas and aluminum production, provides new horizon for hope for greater productivity in the future. Diversified production can lead to increased revenue.

The wealth of any nation does not depend solely on possession of basic raw materials, but on actual productivity of the people and the mechanism of exchange for goods and services. In order not to over-emphasize revenue allocation at the expense of revenue derivation, the revenue earning capacities and fiscal efficiency of the component units of the federation should from time to time be reviewed. There should be a limit to the fragmentation exercise so that the constituent units of the federation would not be so small as to undermine the prospects and possibilities of relative financial autonomy of the units. The capacities for internally generated revenue should be enhanced through purposeful restructuring and reform of both government responsibilities and tax jurisdictions. The index of population used as criterion for revenue allocation should focus not on unproductive and mass dependent population, but on social reconditioning of the population through deliberate policy on technical manpower training. Without possession of the skills required to convert raw materials to finished products and efficient inter-personal services, then the population would be dependent on importation of most of its needs. Import-dependency for survival of a nation's population is the climax of technological poverty and the root cause of neo-colonialism or importation.

It has been argued and rightly established that export trade is an engine of growth, being that it enhances employment generation through the development of export oriented industries, increases foreign exchange earnings and improves balance of payment position of a given economy. Some studies support this claim

for instance, Onayemi and Ishola (2009) report that elaborate historical studies have provided empirical validation of the view that growth performance is more satisfactory under export promotion. This supports earlier findings by Krueger (1928), Bhawati (1978), and Papageorgious et al (1991), each of whom had earlier reported that sustainable increase in income per capita is better achieved under export promotion policy. On his export demand model, Iyola (1995) highlights the powerful effect of foreign trade on economic growth (though he used crude oil exports only).

Again, for sharing or allocation to take place according to Omelle (2004), there must be production and for production to be in process, there must be resources. What is produced, controlled, processed, appropriated or shared, is not from political power or from ideas that exist in the heads of men, but from concrete material resources endowed by nature and found in specific locations. In every allocation there is a physical material location. The principle of derivation is therefore central to the authoritative decisions, as to who and who get what, when, where, how and why in any political system. Besides, the exploitation of resources by which revenue is generated leads to the depletion of economic potentials of environment, and unless adequate provisions are made for an appropriate compensations some sections of the society may be condemned to deplorable living conditions in the future (Akpakpan, 2004). This therefore calls for adequate weight for the derivation principle.

Derivation principle is naturally superior to all other principles, as all other known principles are derived from the primacy of deprivation. In the first republic, for instance, using the principle of derivation, each region had the constitutional right to export certain goods/products from its area for the purpose of

embarking on regional development projects, Produce/marketing boards were established and thrived mainly at regional levels, thereby enhancing the fiscal capacity of each region for rapid economic and social development (Omelle, 2004).

As Ekpo (2004) noted, crude oil production has been by far the most important economic activity in the Nigerian economy since the early 1970s. Its impact is not limited to its contributing approximately 90% of Nigeria's total foreign exchange earnings but also to the fact that the national budgets are predicated on the expected annual production and price of crude oil. Therefore, crude oil impacts on all other sectors of the economy through the aggregate demand it generates, thus making the revenue from the oil sector the primary engine for national economic growth and development. That being the case, it would be quite reasonable to expect that the areas producing the nation's crude oil would be very highly developed as compensation for what is taken away, as well as for the devastation on the land engendered by the exploration process. One would have expected to see development of physical and social infrastructures, human capital creation, and economic empowerment of the general citizenry in those areas (Ekpo, 2004).

The United States, Canada and Australia are federations in industrialized parts of the world.

Their sources of revenue generation are based on industrial production and export, which account for the relative financial self-support of the federating units. They run co-ordinational federal systems with common control for defense, external affairs, currency, Supreme Court and allow limited internal

responsibilities to the federal government. The tax jurisdictions of the units are wider and provide more revenue to the units, thereby encouraging interdependence and competition among the units. Such lesson should be meaningful for future Nigeria when the federating units must have established foundations for industrial take off.

Conclusion

The teething problems that crippled the Nigerian fiscal arrangements are fundamentally attributable to the nature, content and character of the country's fiscal regime as well as the institutional and socio-political factors that shaped the country's economic policy including limited revenue base. Each level of government-federal, state and local wants to have a sizeable share of the national cake. The military decrees and the frequent setting up of commissions both for the purpose of revenue allocation were to satisfy the interest of the stakeholders in having a just and 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 formulae for revenue sharing in Nigeria should be guided by national interest which should super cede individual or primordial interest.

Recommendations

With the availability of basic raw materials and potentialities for increased revenue generation in the future, what should be done to realize those possibilities are as follows:

- i. Manpower training in science and modern technology should be pursued vigorously through proper funding of Education.
- ii. Operations of the multinational corporations should be better regulated in terms of wage control to remove wide disparities, mineral exploration and accountability, and encouragement of diversified investments in virgin areas or new products manufactured locally.
- iii. The State and Local government units should be made revenue bearing sources rather than mere expenditure units. Therefore, states and local governments should invest more in pilot industries and mechanized agriculture.
- iv. The development of solid minerals to supplement oil mineral should be encouraged and undertaken with all amount of aggressiveness. All levels of government should be involved in such development process as partners to create a sense of belonging.
- v. The matrix parameters for revenue allocation should give more attention to revenue derivation, fiscal efficiency and governmental responsibilities based on investment in pilot and medium scale industries that can widen revenue regeneration capacity.
- vi. The Revenue Mobilization, Allocation and Fiscal Commission should endeavor to come up with a credible review exercise by mapping out programmes and processes that would guarantee full involvement and participation of all stake holders.
- vii. Agriculture, as the "engine house" of world economies needs to be overhauled and serviced in order that the tears of the Nigerian masses may dry up. This can only

- be possible when the government starts investing substantial capital into the sector.
- viii. Government at all levels must engage in systematic diversification from oil and be proactive in the development projects in terms of infrastructure, education and health. This means that not only must federating states and the federal government understand the need for development but they must also show that they know how to bring it to the grass-roots in order to achieve maximum results.
 - ix. There is need to encourage both the state and local governments to generate their revenues internally like granting them relative control over natural resources found in their domain. This will make them less dependent on the federal government and look inward for fiscal sustainability as well as restoring social contract and improving service delivery in the sub-national government.
 - x. In order not to over-emphasize revenue allocation at the expenses of revenue derivation, the revenue earning capacities and fiscal efficiency of the component units of the federation should from time to time be reviewed.
 - xi. There should be a limit to the fragmentation exercise so that the constituent units of the federation would not be so small as to undermine the prospects and possibilities of relative financial autonomy of the units.
 - xii. The capacities for internally generated revenue should be enhanced through purposeful restructuring and reform of both government responsibilities and tax jurisdictions.

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