

DIVISIVE DIVIDING: REVENUE ALLOCATION AND UNREST IN NIGERIA SINCE THE LATE COLONIAL PERIOD.

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Abstract: Conflict over the formula for revenue allocation has been a prominent issue in Nigeria's political development since the late colonial period. This article examines the pattern of revenue allocation in Nigeria and the impact on the country's political instability. Nigeria has operated a federal constitution for much of the period since 1954 and there has not always been agreement on what percentage of the resources produced by the various units that make up the country should be controlled by them. Some attempts have been made to analyse the issues mainly from the political economy perspective. This article adopts the historical approach. It explores the changing patterns of revenue allocation in Nigeria and the response of the people to different prescribed formulas. In this way, it is possible to broadly assess the impact of revenue allocation on Nigeria's political development. It is suggested that one of the best ways to address the revenue allocation crisis in Nigeria is to adopt a system that is fair and one that encourages industry. In this way, it would be possible to achieve a measure of contentment and attention can also be focused on how to produce and not just on how to share.

Key Words: Revenue Allocation, Political Instability, Unrest, Federalism, Nigeria.

INTRODUCTION.

When, on 1 February 2005, Nigeria's president Olusegun Obasanjo inaugurated a political reform conference, he had the objective of producing a framework for reforming Nigeria's political system such that instability and unrest would be drastically reduced and a stable structure

ensured. However, no sooner had the conference commenced than disagreements over the revenue allocation formula to be prescribed arose. The result was that a conference that was expected to provide ideas on how to achieve political stability became a catalyst for instability¹. Long before 2005, and on several occasions since then, disagreements over the method of revenue allocation have been a major feature of Nigerian politics as it has been since the 1940s. The inability to reach a consensus on the issue has also contributed immensely to Nigeria's political crisis and the 2005 example was only one of numerous such experiences. From the period after the Second World War when Nigerians began to be seriously involved in the country's administration, and with the introduction of regionalism by the Richards constitution in 1946, the formula for revenue allocation has remained a vexed issue. Efforts to find a satisfactory solution to the problem have not been successful².

The resource control agitation in Nigeria's oil producing Niger Delta area which became one of the thorniest issues in Nigerian politics in the 1990s and remained prominent in the opening years of the twenty-first century, reveals the lingering nature of the country's revenue allocation problem³. The Niger Delta crisis has been caused mainly by what the inhabitants of the area perceive exploitation and oppression by other parts of the country, notably the northern part where the vast majority of Nigeria's political leaders have come from since independence in 1960. The people of the Niger Delta argue that the exploration and exploitation of oil and gas has caused extensive environmental degradation in the area without a corresponding share of the resources from oil

sales⁴. They vehemently condemn the arrangement where the share of revenue to mineral producing areas has hovered between less than one per cent and thirteen per cent since 1966. The revenue allocation agitation has therefore been at the heart of the Niger Delta crisis which at some point threatened the very survival of Nigeria as a political entity. It is for this reason that a great deal of attention has been paid to the revenue allocation issue. But as one source notes, despite the fact that numerous efforts that have been made to resolve the problem, which include the establishment of different commissions and the implementation of their recommendations, “the problem of revenue allocation still plagues the country. It has remained an emotional, sensitive, and highly politicised issue⁵”. Another source avers that “Revenue allocation in Nigeria is such a highly politicised issue that it shares with general elections, census and state creation, the dishonour of being one of the most destabilising factors in the Nigeria body politic⁶”.

As a federal state, the different units that make up Nigeria expect to control a measure of the resources they produce. Disagreements among Nigerian leaders on the revenue allocation issue became clearly manifest for the first time in the debate leading up to the production of the Macpherson Constitution of 1951. There were three regions in the country at the time in addition to the central government. The trend of the arguments was such that administrators and political leaders from Northern Nigeria favoured demography and landmass as the major considerations for revenue allocation while their counterparts from the Western regions favoured derivation. The Eastern Region favoured need as the basis for revenue allocation because its earnings were low at the time. In other words, Each region argued for a formula that was suitable for its economic condition⁷. Since then, the southern regions have always wanted the federating units to control a large percentage of what they produced for development at the local level. Their preference has been that a small proportion of earnings should be to be given to the central government to carry out its functions and redistribution to all the other units. The North/South dichotomy on the revenue allocation issue is easy to explain when it is realised that for close to a century, Southern Nigeria has contributed by far the greatest proportion of resources towards Nigeria’s development. Indeed, a major reason for the British amalgamation of Nigeria in January

1914 which in effect created Nigeria as a geo-political entity was to enable the south to use its surplus resources to augment the deficiencies of the north⁸.

The British colonial authorities carefully considered the revenue allocation crisis and recommended derivation as the principle to be adopted in the 1954 Macpherson Constitution. Under the arrangement, the regions that made up Nigeria controlled as much as fifty per cent of the resources they produced. Of the rest fifty per cent, twenty per cent was retained by the central government and the rest thirty per cent was shares among the then existing three regions. The formula ensured a measure of stability as it encouraged industriousness and promoted a healthy competition among the different regions. It was the same revenue allocation formula that was adopted after independence and applied with some modifications during Nigeria’s First Republic from October 1960 to January 1966⁹. However, following the advent of the military in the administration of Nigeria from January 1966, the formula began to be tampered with, hovering between less than one per cent to thirteen per cent granted to producing areas from 1966 to 2011. The frequent changes have also been accompanied by intense conflict. The Nigerian Civil War which was fought from July 1967 to January 1970 was caused partly by disagreements over allocation and the control of resources¹⁰. In this article, we analyse the nature and changing pattern of the vexed issue and the impact on Nigeria’s political stability. We concludes by discussing the current state of things and prospect for the future.

1. ORIGIN AND EARLY DEVELOPMENT OF THE REVENUE ALLOCATION AGITATION

From 1914 when Nigeria emerged as a geo-political entity to 1946 when the Richards Constitution was produced, there was hardly any disagreement over the pattern revenue allocation in the country. A major reason for this was that Nigerians had very minimal involvement in the governing process. British colonial officials were fully in control and the preoccupation of Nigerian leaders was how to secure positive colonial policies. Although the indirect rule system adopted by the British used the traditional rulers in different parts of the country, these did not have effective powers. They simply carried out the instructions given them by the colonial authorities. Those of them

that were involved in the activities of the Nigerian Council established in 1914 and later under the Richards Constitution of 1946 could not make any meaningful contribution to the administrative process. As it is well known, the councils were dominated by British officials and decisions reached were not binding. The Governor could reject (and in many instances did reject) the decisions of the Legislative Councils after informing the Foreign Office in London¹¹. Nigerians were therefore generally excluded from the effective administration of the country. Under these circumstances, it was impossible for them to be effectively involved in issues relating to revenue allocation and expenditure.

The system of income earning and allocation in the period from 1914 to 1946 was quite clear. Direct or poll taxes were left to the local administrations to collect and administer. Almost all the other sources of revenue were controlled by the central government. Of these, customs duties constituted the most important. There was close cooperation, however, between the central government and the various units on revenue matters. The central government assessed the needs of the provinces and rendered assistance in line with what was needed and available resources. In a few instances, the provinces were of assistance to the central government also. During the Great Depression of the 1930s and in the early period of the Second World War, for instance, the provinces were of great financial assistance to the central government and it was not until after the war that economic fortunes improved¹². Great amount of reasonableness was displayed by the officials at various levels of government over revenue matters and there was hardly any dramatic issue arising from them up to the post-World War II period.

This pattern changed with the introduction of the Richards constitution which became operative on 1 January 1947. The constitution introduced regionalism and the expansion of the source of revenue for the lower level of government. Nigeria had been divided into three regions under Governor Bernard Bourdillon in 1939 and the Richards Constitution used the regions as the basis for administration. Under the Richards Constitution, direct and income taxes and taxes on other items such as liquor were placed under regional control. In addition to these, licenses for motor vehicles, forestry, hunting as well as court fees and mining rights became part

of the sources of revenue for the regions. The 1946 constitution also provided that customs duties, excise duties, mining royalties and company tax, among other sources, should be controlled by the central government. Of these, customs duties remained the greatest source of revenue for the Central Government and this level of government really had excess funds as only a small percentage of its collected revenue was spent on the running of the government.

In spite of the many sources of revenue for the regional governments provided for in the Richards Constitution, many of the regional leaders were not satisfied with the formula. Consequently, disagreements broke out on the matter as soon as the provisions became known. The colonial government responded by appointing the Phillipson Commission in 1946 to examine the issue and make recommendations accordingly. This was the first of the many commissions which have been established by different governments since then. The Phillipson Commission recommended the principles of derivation and even development as the basis for revenue allocation. The Commission was of the view that since Nigeria was moving towards the adoption of a federal system of government, the principles recommended should be in line with the principles of federalism as well as make for equity and fairness. As a basis for revenue allocation, derivation means "the principle by which revenues originating from within a region are allocated to it"¹³. The second principle which was that of even progress refers to the idea of allocating a bigger share of federal revenues to a relatively poor region so as to ensure a fairly even development for the country. On the surface, the two principles appear reasonable and adequate, but the bickering by the leaders of the different regions on the issue did not abate and when debates on a new constitution got under way in 1947, revenue allocation was a central issue¹⁴. It should be emphasised that in spite of the expansion of the sources of revenue for the regions in the Richards Constitution, and despite the principles recommended by the Phillipson Commission, the dominance of revenue matters by the central government continued from 1946.

A constitutional conference was convened in Ibadan in January 1950 where the final stages of the debates on what became the Macpherson Constitution took place. At the conference, serious disagreements broke out over the

revenue formula to be adopted in the new constitution. The delegates from the Western Region argued in favour of the principle of derivation. If adopted, this formula would have benefited the West more than the two other regions since cocoa, which was by far the greatest revenue earner from the late 1940s and through the 1950s came from the region. The Eastern delegates, for their part, preferred the principle of need as the basis for revenue allocation in the new constitution¹⁵. This principle was the most favourable to the East since it was the poorest of the three regions. During this period, earnings from palm produce, which was the dominant source of income for the region, had become very small due to falling prices and less demand in the international market. The Eastern Region therefore needed support from the central government more than any other. As for the delegates from the North, their preferred principle for revenue allocation was population. In other words, revenue should be calculated and shared on per capita basis. Again, since the population figures for the country at the time favoured the Northern Region, the preferred formula by Northern delegates was the most advantageous to their region. Self interest therefore dominated the debate on revenue allocation by the delegates at the Ibadan Constitutional Conference in early 1950¹⁶. The same pattern has continued since then. The sharp disagreement on the revenue allocation issue led to the establishment of the Hicks-Phillipson Commission in 1950. Like the Phillipson Commission before it, the new body was mandated to recommend appropriate and fair revenue allocation formula for the country.

The Hicks - Phillipson Commission recommended the principles of derivation or independent revenue, need and national interest as the basis for revenue allocation. This meant that the regions would exercise control over the resources originating from them. In addition, taxes on items arising from each region were brought under the control of the regional governments who also decided how much of the direct taxes would be administered by the native administrations. The Hicks-Phillipson Commission equally recommended that taxes on petrol should be brought under the control of each region. It can be said that the recommendations of the 1950 Commission on revenue allocation ushered in a period of fiscal decentralisation which continued until the end of the First Republic in 1966. In the practical application of the principle of need, the government used the

population of each region as a basis and grants were given by the central government in accordance with the number of adult tax payers. On the principle of national interest, the Central Government was to give grants to the regions in line with their expenditure on the recurrent expenditure of the police and their grants-in-aid to support education in the local areas¹⁷. The recommendation that taxes on petrol should be brought under regional control was not implemented immediately until the method of collection and distribution was worked out. As far as revenue allocation formula was concerned, the recommendations of the Hicks-Phillipson Commission of 1950 were more favourable to the regions than those of the Phillipson Commission before it. For the 1950 Commission brought more taxable items under regional control and generally made it possible for the regions to control more of the resources originating from them. Yet, many of the regional leaders favoured more fiscal decentralisation. Indeed, some of them agitated for almost total control of all the resources originating from the respective regions to meet their financial needs¹⁸. The differing opinions on the issue led to the establishment of yet another commission to review the revenue allocation formula. This was the Sir Louis Chick Commission of 1954.

It was the Louis Chick Commission that gave the indirect expression to fiscal decentralisation. It recommended derivation and fiscal autonomy as the basis for revenue allocation, while it empowered the Central Government to give grants to regions that were unable to meet their financial obligations. The recommendation of the Louis Chick Commission was in line with the prevailing political milieu of the period after 1951. The Macpherson Constitution had adopted the principle of federalism and provided for the sharing of powers between the central government at the centre. However, the provisions of the Macpherson Constitution still concentrated a lot of powers in the central government and the result was that the constitution proved unworkable¹⁹. The disagreement in the Western region which prevented Dr. Nnamdi Azikiwe, leader of the National Council for Nigeria and the Cameroons (NCNC), one of the major political parties at the time, from making it to the Central Legislative Council in 1952 in what was regarded as ethnic discrimination against him in the West, the ripple effect of this on the Eastern House of Assembly as Dr. Azikiwe returned to his region of origin to fulfil his ambition to go to the

central legislature, as well as the disagreement over the motion for independence in 1953 and the riots that followed in Kano, convinced the colonial government that complete autonomy for the regions in line with the principles of federalism was the only reasonable political structure that was expected to work in Nigeria²⁰. In line with this thinking, the Louis Chick Commission made the principle of derivation the focal point of its recommendation. Derivation was to be followed “to the fullest degree compatible with meeting the reasonable needs of the Centre and each of the Regions²¹”. The recommendations of the Louis Chick Commission were therefore in line with its mandate.

The adoption of the recommendations of the Louis Chick Commission ensured that most of the taxes originating from the respective regions were controlled by them. The same applied to rents on mining rights and licenses for a wide range of items. In addition, revenues accruing from the sale of primary products were retained by the regions of origin. Indeed, the surplus which had been accumulated from such sales which was held by the Central Government had to be shared according to the contributions of various regions following the application of the derivation principle. As the principle of derivation was given its widest application from 1954, it was the Western Region that earned by far the largest revenue as cocoa, its principal export commodity, continued to enjoy a boom in the international market. Columbite and groundnuts which were the principal export commodities from the North also did fairly well in the international market. The region therefore had enough to meet its financial needs and some surplus. It was the Eastern Region that was badly hit by the application of the new revenue formula. The Eastern Region had fallen on evil days as it experienced declining economic fortunes and consequently could not meet its financial obligations²². Under the circumstances, the Central Government had to come to its aid from time to time with grants. The reality of the application of derivation became evident when the surplus of the revenue earned was shared in 1954. The Federal Government got 8.32 million naira and the Western Region got 8.98 million naira. 3.08 million naira went to the North, while the East recorded a deficit of 3.08 million naira went to the North, while the East recorded a deficit of 0.92 million naira²³. The West, however always got the least amount of grants from the Central Government since it already

got huge surplus from independent revenue earnings.

Another major manifestation of the fiscal decentralisation which took place from 1954 was in the area of the establishment of regional marketing boards to replace the four commodity marketing boards which had been established and controlled by the Central Government in 1946. The four commodity boards had been mandated to appoint licensed agents to buy primary products from farmers at prices fixed by the boards which were usually below the world market prices. The difference was kept by government for development purposes. Following the adoption of the Louis Chick Commission’s report, the surplus which had been accumulated was shared between the Federal Government and the regions in accordance with the contribution of each region to the pool as the commodity boards gave way to regional marketing boards²⁴. From 1954 onwards only one Central Marketing Board existed in place of the former four and it functioned only in a consultative capacity with the regional boards. The regions enjoyed a great deal of autonomy in revenue matters and what each got was according to the resources it possessed and taxes that it collected.

The application of the principle of derivation from 1954 in line with the recommendation of the Louis Chick Commission’s report clearly favoured the Western Region. Its share of the surpluses of the dissolved commodity boards in 1954 and earnings in the next three years were consistently more than what the North and the East got combined. Although the two less-favoured regions initially accepted the system of revenue allocation recommended by the Louis Chick Commission with the hope that some time in the future the pendulum of earnings would swing in their favour, they soon began to protest against the derivation principle as it was practiced after 1954. While the earnings of the East was the smallest aside from Southern Cameroon, the size and need of the Northern Region made its relatively better revenue to pale into insignificance and become grossly inadequate. It was only the Western Region, which earned the highest among the regions that had huge surpluses after taking care of the cost of administration. Nnoli observed that by 1955-1956 “Northern opposition to (the derivation principle) became vehement”, and another source notes that during the same period up to 1957 the revenue allocation formula “poisoned

intergovernmental relationship and... exacerbated interregional rivalry”²⁵. It is therefore not surprising that when the 1957 Constitutional Conference began in the final stages of preparations for independence, the revenue allocation formula again became a central issue. The result was the appointment of the Raisman Commission on revenue allocation in 1957 to review the existing system.

Considering the rivalry and bickering that the application of the derivation principle generated between 1954 and 1957, the Raisman Commission decided to alter the system. It added the principles of need, population and responsibilities of each region to derivation as the basis for revenue sharing. Fifty per cent of the revenue from major items, including mining rents and royalties, was to be held by the region of origin. The Federal Government was to hold twenty per cent and the rest thirty per cent would be paid to a source that was called the “distributable pool”. Excess federal revenue was also expected to be paid to the pool from which it was to be shared to the regions. Seventy per cent of import revenue was to be held by the Central Government and the remaining 30 per cent was to be paid to the distributable pool. A formula of 40 per cent to the North, 31 per cent to the East, 24 per cent to the West, and 5 per cent to the Southern Cameroons was recommended for sharing the revenues accruing to the distributable pool²⁶. This was in line with what was perceived to be the needs and responsibilities of the regions considered along with their individual earnings. Although a region like the West had cause to complain about the recommendations of the Raisman Commission, what it continued to earn from the fifty per cent derivation provision was enormous. The Western Region therefore continued to be the richest of all the regions up to independence and for much of the First Republic (1960-1966).

The system of revenue allocation recommended by the Raisman Commission was the general pattern that was followed before the military came to power in 1966. The only major change that took place was in the implementation of the Binn’s Commission of 1965 which provided for an increase in revenues that should go to the distributable pool to 35 per cent and the alteration of the distribution formula which increased the Northern Region’s share to 42 per cent and reduced those of the East and West to 30 and 20 per cent and respectively²⁷. The Midwest Region, which was created out of the

Western Region in 1963, was allocated 8 per cent.

An assessment of the system of revenue allocation in Nigeria before independence and even throughout the First Republic reveals that derivation was given prominence. This was especially so from 1954 when the federal system was adopted as the most appropriate system of government for the country. Although changes took place from time to time following recommendations of different commissions, derivation was not at any time abandoned. It was true that due to the application of other principles such as need, population and responsibilities, some less-endowed regions got more from the common pool, but the derivation principle which provided for at least fifty per cent of the revenues originating from a region being held by it ensured that the regions which had more got more from source. It is for this reason that many who have been involved in the agitation for fiscal federalism since the 1980s frequently refer to the structure which existed shortly before and after independence, a period they look at with nostalgia²⁸. It should be noted, however, that the revenue allocation formula was not always satisfactory to the leaders of the different regions. Indeed, it was an intense subject of bickering as has been pointed out. For each of the regions wanted a formula that was considered most beneficial to it. In spite of this, hardly anyone lost sight of the need for some measure of fiscal autonomy for the regions in line with the practice of federalism. This was clearly the major difference between the period before 1966 and the period after.

2. THE CHANGING PATTERN OF REVENUE ALLOCATION UNDER MILITARY ADMINISTRATIONS UP TO 1979

The First Republic was brought to an end by the military coupled by Major Kaduna Nzeogwu in January 1966. The military government of Major General Aguiyi-Ironsi which followed was clearly unitary in its orientation. On 24 May 1966, the Ironsi government promulgated Decree No. 34 by which the regions were abolished. Although the move was opposed by people from all over the country, this action by the government revealed a major change in Nigeria’s political development. Such thinking by the military government effectively ruled out any consideration of fiscal autonomy for any level or unit of government²⁹. It is noteworthy

that the attempt by the Ironsi government to abolish the regions and introduce a unitary government was a major reason for his overthrow on 29 July 1966. The new government of Lieutenant-Colonel Yakubu Gowon retained the old structure of the regions, but since it was a military government and since the administrators of the regions were appointed from the centre, the fiscal autonomy that the regions had enjoyed since 1954 became lost.

It is important to stress that across Nigeria many were dissatisfied with the arrangement which robbed the regions of their autonomy and control over their resources. Indeed, one of the immediate causes of the Nigerian Civil War was the attempt by Lieutenant-Colonel Ojukwu, the military governor of the East, to maintain fiscal autonomy. The Revenue Collection Edict of 31 March 1967 which Ojukwu promulgated, empowered the region to retain the revenue originating from it. The Gowon government at the centre reacted by creating twelve states on 27 May 1967 out of the existing four regions after fruitless efforts to reconcile with Ojukwu and persuade him to drop his decision to “go it alone”. Ojukwu’s response was the proclamation of the Republic of Biafra on 30 May 1967 and the differences became irreconcilable, the result was the outbreak of the Nigerian Civil War on 6 July 1967³⁰.

In the midst of the political crisis that engulfed Nigeria between 1966 and 1970, the government established the Dina Interim Revenue Allocation Committee in 1968. The Committee recommended a revenue allocation system which gave far more revenue to the Federal Government than at any time in the previous two decades. For instance, mining rent and royalty, of which the region from which they originated had held 50 per cent, was reduced to 10 per cent for them by the Dina Committee. The Federal Government was granted 15 per cent and the states joint account got 70 per cent if the source was onshore. For mining rent and royalty on offshore resources, 60 per cent went to the Federal Government and 30 per cent was granted the states joint account. Ten per cent went to special grants and the adjoining state got nothing. Other recommendations of the Dina Committee were: import duty: Federal, 50 per cent, states joint account 50 per cent. Export duty: Federal, 15 per cent, states joint account 70 per cent, derivation 10 per cent and special grants, 5 per cent. Excise duty: Federal, 60 per cent, states’ joint account, 30 per cent, and

special grants, 10 per cent³¹. The application of the report of the Dina Committee meant that derivation almost disappeared as a principle of revenue allocation. Revenue collection and sharing became increasingly centralised and fiscal independence which the regions had enjoyed since 1954 became greatly eroded.

Further fiscal centralisation was achieved during and after the civil war with the promulgation of Decree 51 of 1969 and Decree 13 of 1970. The 1970 decree gave all offshore revenues to the Federal Government in addition to higher percentages of duties on many items. At this time crude petroleum had become Nigeria’s major source of revenue and the adjustments on mining rent and royalty in favour of the central government in the revenue allocation system ensured that the Federal Government controlled the bulk of the country’s earnings. In 1975, Decree 13 of 1970 was amended to further increase the revenue accruable to the Federal Government and the distributable pool account at the earnings from import duty on petrol and tobacco, as well as 100% of the export duty on produce, hides and skin went to the distributable pool. This was in addition to 50 per cent of excise duty on commodity and 80 per cent of oil receipts³².

Yet another committee on revenue allocation was established in 1977. This was the Abovade Technical Committee on Revenue allocation which was appointed by the Obasanjo military government. The committee recommended some rather strange formula: Tax effort and fiscal efficiency, equality of access to development opportunities, national minimum standards for independent revenue, and absorptive capacity. It also recommended the replacement of the distributable pool account with a Federation Account which should be shared on the basis of a ratio of 57 per cent to the Federal Government, 30 per cent for the states, 10 per cent to the local governments and 3 per cent for special grants³³. This was the structure when the military finally handed over power to civilians in October 1979. Under the military, the revenue allocation principle had become altered with derivation being greatly neglected and the Federal Government controlling a huge chunk of the country’s resources. This is one of the many ways in which the military’s involvement in Nigeria’s political administration has greatly eroded the country’s federalism.

3. PATTERN OF REVENUE ALLOCATION SINCE 1979

After thirteen years in the political administration of Nigeria, the military handed over power to civilians on 1 October 1979. The new government was headed by Alhaji Shehu Shagari. Shortly after assuming office, the Shagari government appointed the Okigbo Revenue Allocation Commission in November 1979. Curiously, although the commission was established under a civilian government, its recommendations did not portray the expected federal principle which always stresses derivation. It merely marginally altered the percentage of the share of the revenue in the Federation Account. For instance, the central government's share of revenue was merely reduced from 57 per cent to 53 per cent, and states were to get 30 per cent while 10 per cent were to be allocated to local governments and special funds were to be 7 per cent. The report of the Okigbo Commission was, however, declared null and void by Nigeria's Supreme Court on 2 October 1981³⁴.

A new revenue act was passed by Parliament the same year which became operative in January 1982. The structure recommended by the new Act did not differ markedly from the existing structure. The pattern of the collection and allocation of revenue remained the same except that the sharing ratio was slightly modified to 55 per cent to the Federal Government, 35 per cent for state governments and 10 per cent for local governments³⁵. It was the system contained in the 1981 Revenue Act that formed the basis for revenue allocation up to the end of the Second Republic in December 1983. As already pointed out, it followed basically the same pattern with what the civilian government met when it was installed in October 1979 and even further centralisation took place following the return of the military to political administration following the overthrow of the Shagari government on 31 December 1983.

The new military government was headed by Major-General Muhammadu Buhari which quickly tightened its noose on the country. Further fiscal centralisation was carried out and the share of the Federal Government from the country's earnings was further increased. The Buhari government reduced the revenue paid to states from which different resources were obtained to a mere one per cent and the central government controlled almost all the resources.

This was the revenue allocation formula that subsisted until the overthrow of the Buhari government by Major-General Ibrahim Babangida on 27 August 1985. The Babangida government established its own revenue allocation commission, the Danjuma Commission which was up in 1991. The Commission recommended the raising of the revenue to mineral producing areas to 3 per cent in 1992. It also recommended a ratio of 48.5 per cent, 24 per cent and 20 per cent to the federal, state and local governments respectively. The Commission, however, also stated clearly that there should be clear separation between minerals obtained offshore and onshore. The 3 per cent was to be applied to mineral resources exploited onshore and those obtained offshore were excluded³⁶. This was later to be called the onshore and offshore dichotomy.

Babangida stepped down as president on 26 August 1993. The Abacha regime which replaced the Interim National Government installed by Babangida inaugurated a constitutional conference as part of the process of transition to civilian government. Not surprisingly, the system of revenue allocation again became a major issue at the Constitutional Conference in 1994/1995. It was eventually agreed that the percentage of resources to be allocated to states and local governments be increased in addition to what should accrue to areas producing different items. Resolution 19, which contained the decision of the Conference on the revenue allocation pattern, stated that a number of considerations, such as derivation, demography, revenue generation capacity, and equality of states would influence the structure of revenue allocation. The 1999 Constitution adopted this principle almost in its entirety as contained in section 162:

“Assembly shall take into account allocation principles, especially those of population, equality of states, internal revenue generation, land mass, terrain as well as population density provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than 13 per cent... of the revenue accruing to the Federation Account directly from any natural resources”³⁷.

This constitutional provision was the basis for revenue allocation in Nigeria in the first two terms of the Fourth Republic from 1999 to 2007

and remained so up to 2011. Although the provision of the constitution is that “derivation shall be constantly reflected in any approved formula as being not less than 13 per cent”, the central government chose the minimum figure, and after twelve years it has not been possible to review the provision³⁸. However, political leaders from the mineral-producing areas, including lawmakers, have consistently agitated for a review of the revenue allocation formula to give more prominence to derivation. The intense conflict which broke out among members of the Constitution Review Committee in 2005 was one of the many cases of disagreement over the revenue allocation formula since the commencement of the Fourth Republic in 1999.

Undoubtedly, the 13 per cent derivation which began to be implemented in 1999 in accordance with the provisions of the constitution was the greatest commitment to the derivation principle since the previous two decades. Many, therefore, consider the new structure as being a good step in the direction of seen fiscal decentralisation. Many, however, notably from the mineral-producing areas, have described the 13 per cent derivation provision as tokenism. They have argued for the restoration of the 50 per cent derivation formula which was in place in the period shortly before and after independence. Thus, the agitation for “fiscal federalism” continued to occupy the centre stage of public discourse throughout the first decade of the twenty-first century even as oil-producing states continued their agitation for a fairer share of revenue from oil sales³⁹.

4. ANALYSIS OF THE PATTERN OF REVENUE ALLOCATION AND CONFLICT

It is important to understand the trends that are discernible in the structure of revenue allocation in Nigeria at different times and the pattern of popular response across the country. It is in this way that it would be possible to draw conclusions on what could be regarded as the best revenue allocation formula to be adopted which would have the least negative impact on political stability. As already indicated, disagreements on revenue allocation formula in Nigeria began in 1946 following the provisions of the Richards Constitution for the then existing three regions to be used as a basis for administration⁴⁰. Although the participation of Nigerians in the governing process was still very limited, conflict on the issue was very intense

such that the colonial authorities accorded it a great deal of attention in the debate leading to the production of the Macpherson Constitution of 1951. This was in addition to the insights provided by the recommendations of the Phillipson Commission of 1946.

The complexities of the implementation of the provisions of the Macpherson Constitution of 1951 are well known. It was generally agreed that a major problem with the constitution was that it failed to give enough expression to the principles of federalism, including control over resources by producing areas. The period from 1951 to 1954 also witnessed some of the most explosive cases of unrest in Nigeria during the colonial period. The Lyttleton Constitution of 1954 addressed most of the flaws of the Macpherson Constitution. In addition, the adoption of the recommendations of the Louis Chicks Commission ensured that the regions exercised greater control over their resources. Although some of the regions like the Eastern region was not favoured by the new arrangement, there was a higher degree of satisfaction overall in line with the feeling that greater fiscal autonomy was in tandem with federal principles which was what was favoured by the vast majority of Nigerians⁴¹. It is true that complaints continued to be received from some quarters about the revenue allocation formula adopted in 1954 which was basically what was utilised until 1965 with a few modifications, but the intense conflict which characterised earlier arrangements from 1946 to 1954 was generally absent in the decade from 1955.

It is already pointed out that a major reason for the overthrow of Aguiyi-Ironsi in July 1966 was his rejection of federalism and the centralization of the administration which included fiscal centralization. Attempt to perpetuate fiscal centralization by the Gowon government despite the return of Nigeria to a federal state equally contributed to the outbreak of the Nigerian Civil War. From the end of the civil war in 1970 to 1999 when civilian rule was installed, a large section of Nigerians continued to vehemently reject and sometimes violently agitate for a more equitable revenue allocation formula despite the fact that the military were in power for fifteen of the nineteen years. The agitations found their most violent expression in the Niger Delta violence during the 1990s⁴². The Niger Deltans generally perceived the administrative and revenue allocation structure as reflecting internal colonization and exploitation. As the principle

of derivation occupied the back stage and mineral producing areas got just between 1 and 3 per cent of the resources they produced, and with the reality of environmental degradation in the course of exploitation of oil and gas, the people of the Niger Delta perceived fiscal federalism as a struggle for survival. The intense violence contributed tremendously to Nigeria's political instability in the 1990s.

The provisions for the payment of 13 per cent derivation to mineral producing areas and the establishment of the Revenue Mobilization, Allocation and Fiscal Commission in the 1999 Constitution gave a measure of satisfaction to different interests across the country. However, the conflict which erupted among leaders of different Nigerian groups in the course of the National Political Reform Conference in 2005 revealed that the revenue allocation crisis was far from resolved. Delegates from the oil-producing Niger-Delta area of Nigeria staged a walk-out of the conference before it concluded as a result of the refusal of delegates from other parts of the country, notably the north, to accept the 25 per cent they agreed to from the initial 50 per cent derivation the Niger-Delta leaders initially insisted on⁴³. Chapter Four of the final report of the conference noted that:

“Delegates from the South-South and other oil-producing states insisted on 50 per cent as the irreducible minimum. Having regard to national unity, peace and stability, they are willing, however, to accept in the interim 25 per cent derivation with a gradual increase to attain the 50 per cent over a period of five years”⁴⁴.

It equally stated that:

“Derivation principle should be given greater prominence than as at now in the distribution of the Federation Account. On resource control, in addition to the points on which agreement was reached in the Committee on Revenue Allocation and Fiscal Federalism, the Conference recommends the following package (1) A clear affirmation of the inherent right of the people of the oil-producing areas of the country not to remain mere spectators but to be actively involved in the management and control of the resources in their communities”⁴⁵.

Unfortunately, as 2011 drew to a close, six years after the recommendation was made, revenue paid to mineral-producing areas as derivation remained 13 per cent when it should have reached 50 per cent. Not even the 17 per cent recommended by the Conference that should be implemented immediately which was rejected by delegates from oil-producing areas has been implemented six years later⁴⁶. Nevertheless, it is clear that the principle of derivation as the most prominent principle for revenue allocation is accepted as fair and reasonable by a large section of Nigerians, even among those without much natural resource endowments in their territories. A second important principle is need and even development which is called federal character in Nigerian parlance. The practical application of this principle means that different areas of Nigeria would control a large proportion (up to half or a little less) of their earnings for local development while the rest is paid to the central government to meet its financial needs distribution to states and local governments from a common pool⁴⁷. This is what is revealed in an analysis of revenue allocation formula and unrest in Nigeria since the late 1940s.

CONCLUSION

Disagreement over the formula for revenue allocation has undoubtedly been one the most important factors shaping Nigeria's political stability since the 1950s. The expectation of the units that make up the country controlling a high proportion of their resources in line with the principle of federalism and the frustration of not being able to do so because Nigeria has functioned more like a unitary state than a federal one has created the condition for unrest. The reality is that the central government in Nigeria, both under military and civilian administrations has been very reluctant to relinquish its extensive control over the country's resources. This is evident from the token measures taken under the government of Shehu Shagari during Nigeria's Second Republic from 1979-1983 as against the high expectations after thirteen years of military rule and its attendant centralism⁴⁸. The failure to decisively address the revenue allocation issue since 1999 and implement the recommendations of the National Political Reform Conference of 2005 is another example⁴⁹. This attitude must change for the revenue allocation crisis in Nigeria to be effectively tackled. This conclusion agrees with the perspectives of Bade

Onimode, Akin Fadahunsi and Assisi Asobie, among other analysts⁵⁰. Nevertheless, it can be said that the prospects for a fairer and more satisfactory revenue allocation formula in Nigeria are bright. Considering the fact that it should be easier to record greater success in securing a change of policy under civilian governments than under military regimes, the expected survival of democracy in the country leads to a realistic expectation that the revenue allocation system would improve in the years ahead⁵¹. However, as has been noted, military rule has not been the only problem with revenue allocation in Nigeria. Issues revolving around some parts of the country trying to make unreasonable demands as they attempt to take advantage of other parts on the revenue allocation issue would have to be addressed as well. On the whole, the level of reasonableness and maturity demonstrated by stakeholders on the revenue allocation issue would ultimately determine its impact on Nigeria's political stability in the future.

Notes

¹ *The Guardian*, Lagos, 10 June 2005, pp. 30-31; Federal Government of Nigeria, "Report of the Technical Committee on the Niger Delta". Abuja, December 2008.

² Dare Arowolo, "Fiscal Federalism in Nigeria: Theory and Dimensions", *Afro-Asian Journal of Social Sciences* 2/2, 2011, pp. 8-11; Rotimi Suberu, "States Creation and the Political Economy of Nigerian Federalism", in Kunle Amuwo et al (eds.), *Federalism and Political Restructuring in Nigeria* (Ibadan: Spectrum Books, 1998), p. 276.

³ Biodun Jeyifo, "The Niger Delta, Our Country, Our Continent and the Global Justice Movement", *The Constitution: Journal of Constitutional Development* 9/3, 2009, pp. 7-11; Cyril. Obi, "Oil Minority Rights Versus the Nigerian State: Environmental Conflict, Its Implications and Transcendence," CODESRIA'S Conference, Dakar, 2 July, 1995, pp. 16-20; Steve Okecha, "Environmental Problems of the Niger Delta and their Consequences", in A. Osuntokun (ed.) *Environmental Problems of the Niger Delta* (Lagos: Friedrich Ebert Foundation), pp. 51-61.

⁴ David Aworawo, "The Impact of Environmental Degradation on the Rural Economy of the Niger Delta", in A. Osuntokun (ed.) *Environmental Problems of the Niger Delta*, pp. 154-161; V. T. Jike, "Environmental Degradation, Social Disequilibrium and the Dilemma of Sustainable Development in the Niger Delta of Nigeria", *Journal of Black Studies*, 34/5, 2004, pp. 686-688; *The Punch*, 15 November 2002, p. 10.

⁵ Okwudiba Nnoli, *Ethnic Politics in Nigeria* (Enugu: Fourth Dimension Publishers, 1980), p. 205; Samuel

Ugo, "Resource Control and its Challenges to Nigerian Federalism", *The Constitution: Journal of Constitutional Development* 4/4, 2004, pp.64-71.

⁶ Federal Government of Nigeria, *Report of the 1994/1995 Constitutional Conference*, Abuja: Government Printer.

⁷ Nnoli, *Ethnic Politics*, p. 203.

⁸ Tekena Tamuno, "British Colonial Administration in Nigeria in the Twentieth Century", in O. Ikime (ed.), *Groundwork of Nigerian History* (Ibadan: Heinemann, 1980), pp. 394-395.

⁹ Akin Fadahunsi, "Enhancing Fiscal Federalism in Nigeria", in T. Babawale and B. Olasupo (eds.), *Devolution of Powers in a Federal State* (Lagos: Friedrich Ebert Foundation, 2000), pp. 116-121.

¹⁰ Yakubu Gowon, General and Nigeria's Head of State (1966-1975). Interview with the Author, Lagos, 14 June 2011.

¹¹ Gabriel Olusanya, "Constitutional Developments in Nigeria, 1861-1960", in O. Ikime (ed.), *Groundwork of Nigerian History*, pp. 520-524.

¹² James Coleman, *Nigeria: Background to Nationalism* (Berkeley: University of California Press, 1958), pp. 313-317.

¹³ Nnoli, *Ethnic Politics*, pp. 203-204.

¹⁴ Olusanya, "Constitutional Developments", pp. 530-531.

¹⁵ Ibrahim Abdullahi, "Revenue Allocation: Lessons from other Federations", in Hassan Salihu et al (eds.), *Democracy and Development in Nigeria Vol. 2* (Lagos: Concept Publishers, 2006), pp. 56-57.

¹⁶ Olusanya, "Constitutional Developments", pp. 530-532.

¹⁷ Arowolo, "Fiscal Federalism in Nigeria", p. 9.

¹⁸ Ibrahim Abdullahi, "Revenue Allocation: Lessons from other Federations", pp. 57-58.

¹⁹ Coleman, *Nigeria: Background to Nationalism*, p. 370.

²⁰ Olusanya, "Constitutional Developments", pp. 537-539.

²¹ Eme Awa, *Federal Government in Nigeria* (Berkeley: University of California Press, 1964), p. 200.

²² Nnoli, *Ethnic Politics*, p. 204.

²³ Awa, *Federal Government*, pp. 199-200.

²⁴ Nnoli, *Ethnic Politics*, pp. 204-205.

²⁵ Adebayo Adedeji, *Nigerian Federal Finance* (London: Hutchinson, 1969), p. 254.

²⁶ Nnoli, *Ethnic Politics*, p. 205.

²⁷ Arowolo, "Fiscal Federalism in Nigeria", p. 10.

²⁸ Fadahunsi, "Enhancing Fiscal Federalism", p. 123.

²⁹ Toyin Falola and Matthew Heaton, *A History of Nigeria* (Cambridge: Cambridge University Press, 2008), pp. 173-175; Abdul-Majid Alkali, "The Quest for True Federalism in Nigeria: Historical Antecedents and Contemporary Challenges", *The Constitution: A Journal of Constitutional Development* 9/4, 2009, pp. 8-9.

³⁰ Falola and Heaton, *A History of Nigeria*, pp. 175-176; Frederick Pedler, *Main Currents of West*

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³¹ Abdullahi, "Revenue Allocation: Lessons from other Federations", 59-60.

³² Fadahunsi, "Enhancing Fiscal Federalism", p. 117.

³³ Arowolo, "Fiscal Federalism in Nigeria", p. 10.

³⁴ Fadahunsi, "Enhancing Fiscal Federalism", p. 119.

³⁵ *Ibidem*, p. 119-120.

³⁶ Danjuma, Theophilus (General), Chairman of Nigeria's Revenue Allocation Commission, 1990. Interview with Author, Lagos, 29 May 2011.

³⁷ Federal Government of Nigeria, *Constitution of the Federal Republic of Nigeria* (Abuja, Government Printer, 1999).

³⁸ Arowolo, "Fiscal Federalism in Nigeria", p. 16.

³⁹ Ugo, "Resource Control", p. 63-69.

⁴⁰ Olusanya, "Constitutional Developments", pp. 528-529.

⁴¹ Fadahunsi, "Enhancing Fiscal Federalism", p. 119.

⁴² Falola, *Punch*.

⁴³ *The Guardian*, Lagos, 10 June 2005, pp. 30-31.

⁴⁴ Federal Government of Nigeria, "Report of the National Political Reform Conference", Abuja, 26 July 2005.

⁴⁵ *The Guardian*, Lagos, 9 August 2005, p. 9; *The Guardian*, Lagos, 27 July 2005, pp. 1-2; Federal Government of Nigeria, "Report of the National Political Reform Conference", Abuja, 26 July 2005.

⁴⁶ Arowolo, "Fiscal Federalism in Nigeria", p. 16.

⁴⁷ Bade Onimode, "Fiscal Federalism in the Twenty-First Century- Options for Nigeria", Paper Presented at the International Conference on New Direction in Federalism in Africa, Abuja, 15-17 March, 1999, pp. 18-25; Ibrahim Abdullahi, "Revenue Allocation: Lessons from other Federations", pp. 66-68.

⁴⁸ Fadahunsi, "Enhancing Fiscal Federalism", p. 119.

⁴⁹ Onimode, "Fiscal Federalism", 4-6; Jeyifo, "The Niger Delta", 10-16.

⁵⁰ Rotimi Suberu, *Ethnic Minority Conflict and Governance in Nigeria* (Ibadan: Spectrum Books, 1999); Onimode, "Fiscal Federalism", pp. 1-29. Fadahunsi. "Enhancing Fiscal Federalism", pp. 114-130.

⁵¹ Goodluck Jonathan, "Federalism in Nigeria: A Sure Steady Walk to Nationhood", Paper Presented at the Fourth International Conference on Federalism, New Delhi, 5-7 November 2007; Abdullahi, "Revenue Allocation: Lessons from other Federations", pp. 66-68.