POLITICS OF REVENUE ALLOCATION AND POLITICAL STABILITY IN NIGERIA

Dr. Love Obiani Arugu
Department of Political Science and Strategic Studies
Federal University Otuoke, Bayelsa State - Nigeria

Abstract
The study explores the perverted revenue allocation formula being practiced in Nigeria from 1970 to date. Before crude oil became the mainstay of the economy, the principle of derivation was used as the basis for revenue sharing among the regions, as agricultural products produced from the majority ethnic regions were the mainstay of the economy. But however, when oil from the Niger Delta displaced these products, derivation was jettisoned and replaced with other criterion, which was designed to give undue advantage to the majority ethnic groups. The research concludes that derivation was discarded because the region where the bulk of oil is sourced from are the minority and for political stability to reign the country must revert to derivation.

Keywords: Revenue, Resources, Federalism, State, Formula, Power and instability.

Introduction

A central theme that has bedeviled the Nigerian State from pre-independence era to contemporary Nigerian State is the issue of how best to share revenue equitably between the centre and the component units. It has remained one of the most contentious, controversial and thorny issues in the Nation's political life. Therefore, successive governments have formulated different revenue sharing formulae with a view to contending with the situation, without finding much success. These sharing formulae are designed to serve the interest of certain sections of the country at the expense of others at any given period in the political economy of Nigeria.

Baker (cited in Omotoso, 2010) underscores the primacy of this issue to the Nigerian polity, and notes that revenue allocation is not a secondary matter but a primary issue that is fundamental to the political and economic stability of the country as a whole.

It should be noted that the use of revenue allocation formula for the sharing of revenue in the federation account, among the tiers of Government originated from the recommendations of Raisman Revenue Allocation Commission of 1957 (Omotoso, 2010).

According to Fadahunsi (1997) in order to underscore the imperative of equitable revenue sharing formula four commissions were set-up between 1946 and 1958 as part of the activities to prepare Nigeria for Independence. These were Philipson (1954), Hickson-Philipson (1958), Chick's-Hicks (1954), and Raisman-Tress (1958). The high point of the recommendations of the four commissions was the emphasis on the principle of derivation. Both the independence constitution of 1960 and Republican constitution of 1963 retained derivation principles which empowered the federal government to pay to each region 50% of royalties and mining rents derived from their areas.

Fadahunsi (1997) further maintains that these principles were compatible with the basic principles of federalism. After independence however, according to Fadahunsi, the Binns commission of 1964 was also anchored on the principles of derivation. Ighodalo (2002) explains that the regions at this period specialized in the production and export of agricultural commodities in which they had comparative advantage. He notes that:

> In the 1950s early 60s, the primary focus of policy was on agriculture for export which was inspired, also by competition among the regions, each of which was export specific: Cocoa in the west, groundnut and cotton in the North, palm production in the East and Rubber in the mid-west region.

All these changed with the sudden decline of agricultural production and the increasing ascendancy of crude oil sourced mainly from the Niger Delta area of Southern Nigeria from 1970s, as the main source of government revenue and the major export earner for Nigeria. According to Igbodalo (2002):

> as cash crops diminished as the main foreign exchange earner of the government, the political permutation at this junction demanded that control of political power at the centre meant to all intents and purposes control of the new found "black gold.

Instead of adopting derivation principle as the criterion for sharing revenue when crude oil became the mainstay of the economy, the Nigerian State opted for equity principles and social factors and consequently jettisoned the practice before and after independence. This situation according to Mbanefoh and Egwaikhide (cited in Omotoso, 2010) is attributed to the minority and political powerless status of the Niger Delta people. Consequently, the majority ethnic groups using the State power since 1970 have consistently prevented the derivation principle as a major criterion in revenue allocation. Corroborating this, Eson (cited in Omotoso, 2010) notes that:

> The whittling down over the years of the derivation in the allocation of revenue has been seen by the minority nationalities particularly those in whose land oil is found as one way of denying them a reasonable measure of control and benefits from their resources.

Therefore at the root of instability and subsequent conflict being witnessed in the region is the gradual erosion of derivation principle by successive governments, when crude oil produced mostly from the minority south-south geopolitical zone became the mainstay of the Nigerian economy from 1970s. Incidentally, the surge in oil revenue coincided with centralization of political power and military rule in the late 1960s. We note that the concept of derivation as the major basis for revenue allocation was de-emphasized and has since lost its prominence to other criteria, which is detrimental to the people of Niger Delta region and obviously at variance with the ethos of federalism.

The skewed revenue allocation formula designed by the Nigerian State which gives undue advantage to the majority ethnic groups controlling the Nigerian State at the expense of the Niger Delta has therefore thrown up instability in the region leading to the formation of several armed groups to confront the Nigerian State and thereby threatening the sovereignty of the Nigerian State.

Therefore, in this research, our aim is to investigate the correlation between political instability and the perverted revenue allocation formula in the Nigeria. It also explores the evolution of revenue allocation formula in Nigeria. The important point to note however is that the perverted revenue allocation regime being practiced is presently ridden with contradictions and our focus is to direct our investigation and analysis to the discovery and understanding of these contradictions in order to solve them holistically.

Theoretical Framework

The essential hallmarks of federalism are the delimitation of powers among different levels of government, the exercise of co-ordinate authority and financial autonomy. Besides, according to Ibaba (2005), it also includes the equality of the component units and equity in resources distribution, which constitute true federalism. Beyond this, Wheare (1993) points out that financial autonomy stands out as the most significant ingredient of true federalism. According to him, financial subordination makes end of federalism. Omotoso (2010) added that for any federation to be sustained there must be fiscal decentralization and financial autonomy. However in the case of Nigeria, what obtains is fiscal centralization.

Consequently, Federal States have designed constitutional devices to guarantee financial authority and by extension the exercise of co-ordinate authority. A major instrument has been the ownership and control of natural resources by the component units and commensurate share of government powers and functions (Ibaba, 2005). Researchers such as Ibaba, (2005), Okoko, Nna and Ibaba (2006), Baker (1984), Mbanefoh & Egwaikhide (1998) etc, have discussed the issues extensively.

Therefore in any Federal State, there must be an arrangement guaranteed by the constitution on how the revenue of the State should be shared among the component units. Supporting this path of thought, Watts (cited in Omotoso, 2010) asserts that:

> Federal finance is an extremely important and controversial subject because: first it, affects the allocation of administrative responsibility because the financial resources available will place limits on the scope of administration which either level of government is able to sustain.

The observation of Watts on revenue allocation is incisive and indeed particularly true for Nigeria. As noted by him, federal finance is a controversy issue. The assumption of Watts that the fiscal power and revenue allocation should determine the tier of government that controls the political economy is relevant to the Nigeria situation.

The case of U.S.A and Canada will be incisive and most appropriate here. U.S.A and Canada are similar Federal States like Nigeria, but what obtains in the countries is a sharp contrast to that of Nigeria. In the U.S.A rent and royalties are paid to the owners of the land or water; the Federal government only collects the petroleum profit tax from the oil companies. This is the case for the people of Northern Ute tribe, who sell long term oil and gas leases on tribal property and individual allotment to national energy corporation (Jorgensen, 1984). He notes that:

> Though most of the money by the corporations flows off the reservation in the form of profit to the energy corporation and never reaches the tribal treasury , they have been able to fend for themselves with gas and oil royalties.

The above scenario is the case in the U.S.A where resource ownership and control lie with the people and not the central government. Ibaba (2005) reaffirmed this view that in the U.S.A, the principles of non-subordination of one government to another and the powers of the government are clearly divided. The central government, which is stripped of resource ownership and control, is limited to issues of common interest to all the units of the Federation.

Ibaba (2005) explains that in the immediate post independence era, the Nigeria Federalism approximated the philosophy and principles of true Federalism. However, according to him, the structure of government was deliberately distorted with time, leading to the centralization of power and natural resources in the Federal government. He further added that the change in resources ownership and the structure of the Federal system could be attributed to the manner the Nigeria federation was created, military rule, the weak and dependent character of the State and the effect of ethnic based political domination.

The world over, certain benefits are accruable to the formation of Federal States (economic, political, military, etc), with each component unit expecting to derive these benefits from the union. Accordingly, the formation of a union is a voluntary one. Thus, for example, the emergence of U.S.A as a Federation of 13 States in 1787 was voluntary. This was brought about by circumstances that propelled the people to give up only certain limited power to the central government and retain some powers (Wheare, 1993). It is pertinent to note that the power to own and control resources in this situation is not given up and therefore, resource ownership lies with the people.

Ibaba (2005) notes that also, in Canada, section 109 of the constitutional Act of 1887 (The British North America Act), states that:

> All lands and properties belong to the several provinces of Canada, ...and all sums then due or payable, for such lands, mines, minerals or royalties shall belong to the several provinces of Ontario, Quebec, Nova Scotia and New Brunswick in which the same situated or arise...

Furthermore, Subsection 92A (1), a new section which followed the constitutional Act of 1982 which amended section 92 of British North America Act 1867, empowers the various provinces to legislate on non renewable natural resources, forest resources, etc. We now turn to the evolution of revenue allocation formula in Nigeria, which has been systematically manipulated to shortchange the Niger Delta people.

The evolution of revenue allocation formula in Nigeria

As has been noted earlier, one of the most contentious issues that have confronted the Nigerian State is how to equitably share revenue to the various component units of the Federation. This assertion was also made by the Report of the Political Bureau (March 1987), that revenue allocation of statutory distribution of revenue from the federation account among different levels of government has been one of the most contentious and controversial issues in the nation's political life (Okoko, 2011).

Therefore revenue allocation is central to the stability of the Nigerian Federation. Ibaba (2005) further adds that the debate on how best to share national revenue has become a recurring subject in national discourse. Writing in the same vein, Mbanefoh and Egwaikhide (2000) point out that:

> ...the issue of revenue allocation has been a recurring theme in Nigeria's fiscal federalism. There is one problem of how to allocate revenue to the different tiers of government in relation to the constitutionally assigned functions. There is also the problem of how revenue should be shared among the states and councils.

However, the most contentious subject that has continued to plague the Nigerian State in contemporary time is the issue of how to allocate revenue for the development of the oil producing communities in the Niger Delta region. This according to Ibaba (2005) is crucial for two main reasons; the oil wealth accounts for over 85% of the national revenue and over 90% of foreign exchange is sourced mainly from the area, and besides, given the nature of its geographical terrain, the region requires huge revenue for its development.

The issue of how best to share revenue among the Federal government, regional government and native authorities led to the first Revenue Commission headed by Sir Sydney Philipson in 1946 to investigate the problems of the distribution of financial and administrative powers among the various tiers of government (Chibuke & Ogbonnaya, 2004).

Philipson Report recommended allotment of duties to the various tiers of government. It therefore recommended the gradual evolution of revenue sharing system mainly based on the derivation principle. It envisaged a situation where each regional government would be credited with the full amount of the tax collected under the direct taxation ordinance of 1940(as amended). All regions would also receive grants from other non-direct tax revenues of Nigeria and from other public funds of Nigeria in direct proportion to the contribution that each region makes to these revenues (Chibuke & Ogbonnaya, 2004).

The preference of Philipson Report for derivation principles was based on its belief that there was the need to inculcate in each region, a sense of "financial responsibility". Therefore, we can apply describe Philipson Report of 1946 as the foundation of derivation principle as the basis for revenue sharing among the various tiers of government in Nigeria.

However, another commission was set up to undertake the review of Philipson Report headed by Dr. John Hicks in 1951. Hick's Report criticized the extensive reliance on the derivation principle adopted by the Philipson Report of 1946.

Nonetheless, the Hick's Report did not altogether jettison the derivation principle. Rather, it retained it for the allocation of such taxes as could be allocated with simplicity and certainty to the regions. An example was taxes on tobacco. It was recommended that 50% of the revenue from it was to be allocated to the regions on the basis of derivation (Chibuke & Ogbonnaya, 2004). We note that the Hick's Report of 1951 materially altered the derivation focus of the 1946 Philipson Report. This new arrangement did not go down well with the western region, given its high cocoa resources, thus it advocated for a reversal to the regime mainly based on derivation.

Another Commission of Inquiry was set up in 1953 led by Sir Louis Chick by the colonial government. The Commission's terms of reference stressed the importance of derivation as the bases for revenue sharing. The Commission according to Chibuke & Ogbonnaya (2004) was explicitly mandated to:

> Enquire how the revenue available or to be made available, to the regions and to the center can best be collected and distributed, that total revenue available to Nigeria are allocate in such way that , the principle of derivation is followed to the fullest degree compatible with meeting the reasonable needs of the centre and each of the regions.

The Chick's Commission granted the region greater fiscal autonomy and recommended that less emphasis be placed on "need' and "national interest" as determinants of revenue allocation in the colony. Consequently, the Report recommended that the Federal government should be allotted 50% of the general import and export duties on tobacco, while the rest should be shared based on derivation. It also recommended that, 100% of the import duty on motor spirit and 100% mining rent and royalties be given to the various regions.

It will be recalled that the above allocation formula was fundamentally altered in 1958 when new Revenue Allocation Commission was empanelled, led by Raisman. Apparently, it coincided with the discovery of crude oil in the Niger Delta area (Eastern region) of Nigeria.

The major recommendations of the Commission were that the regions should have authority over produce sale tax and sales tax on motor vehicle fuel. It also recommended the establishment of the Distributable Pool Account (DPA) for the purpose of sharing federally collectible revenue for the first time. The Commission equally recommended the discontinuous of the then practice of returning mining rents and royalties to the regions. Such revenues were to be shared through the DPA with the regions of origins having 50%, federal government 20% and other regions 30%.

We note that Raisman Report significantly reduced the use of derivation as a principle for sharing the DPA (Chibuke & Ogbonnaya, 2004). Although crude oil was a new discovery in the Eastern Region and the revenue from it at the time (1958/59) was estimated to be only 65,000 pounds (Ikeji, 2011). But according to the Report:

> The problem is oil. Test production of oil has already started in the Eastern Region and exploration is being undertaken both in the North and the West. While the yield from oil royalties is at present comparatively small... Our considered conclusion therefore is that the time for change is now, while there is still uncertainty as to which of the Region may be the lucky beneficiary or which may benefit the most.

Based on the above, the Raisman Report significantly reduced the use of derivation as a principle for sharing DPA. In its place, it introduced four variables: Continuity, minimum responsibility, population and balanced development of the Federation. It would be worthy to state that crude oil was not the first natural resource to be exploited in Nigeria. Prior to its discovery, tin and bauxite were exploited in the Northern region, solely for the benefit of the North. Coal was also mined in Enugu in the East. The West also could not be bothered because of its vast cocoa resources.

Both the 1960 independence and 1963 Republican constitutions guaranteed the derivation principle which empowered the Federal government to pay to each region 50% of royalties and mining rents derived from their areas. Ibaba (2005) observed this that the 50% derivation as enshrined in the 1960 and 1963 constitutions was maintained for a decade due to the fact that cocoa, groundnut, cotton, and palm oil were still the mainstay of the Nigeria economy and these commodities were produce from the enclaves of the major ethnic groups. Cocoa in the West (Yoruba) groundnut and cotton in the North (Hausa/Fulani) and palm oil in the East (Igbo).

However, the discovery of crude oil and gas (found mainly in the minority ethnic groups – Niger Delta) and the enormous resources derived from it led to the gradual de-emphasis on derivation as the basis for revenue allocation, given that it would promote the interest of the minorities who did not wield state power. This also marked a fundamental shift of focus from revenue generation to revenue allocation. To make matters worse, Decree 13 of 1970 turned the tide against the oil producing states. While the 50% derivation principle was left intact to the benefit of the states that were agriculturally rich, the decree reduced the percentage accruable to the oil producing states from 50% to 45% on the basis of derivation (Okilo, 1980).

That was not the end, by Decree 7 of 1971; all royalties and rents obtained from crude oil on territorial waters and the continental shelf were arbitrarily transferred to the Federal government (Okilo, 1980). Then in 1975, after the overthrow of General Yakubu Gowon, the derivation was further reduced from 45% to 20% by General Obasanjo's government.

The principle of derivation was completely expunged from the 1979 constitution, sub-section 42(3) which states that:

> ... The entire property in control of oil minerals and natural gas, under or upon the territory waters and the excusive zone of the Nigerian State be vested in the government of the Federation and shall be managed in such a manner, as may be prescribed by the National Assembly.

Ibaba (2005) asserted that the sudden rise of oil and gas as the cash cow of the Nigerian economy therefore triggered off the politics of revenue allocation. To underscore the above assertion, between 1968 and 1980, three revenue allocation commissions were set up by the Federal government to review the revenue allocation formula. That showed the interest the Federal government had on this issue and eventually manipulated the revenue sharing formula to the advantage of the ethnic majority, who wielded state power. (The Dina Commission of 1968, the Aboyade Technical Committee of 1977 and Okigbo Commission of 1980). The recommendations of the Aboyade Committee and Okigbo Commission reduced the importance attached to the derivation principle. We note that whereas the Aboyade Committee de-emphasized derivation, the Okigbo Commission advocated for its complete removal as a basis for revenue allocation (Okoko, 2011).

In addition, some laws were enacted to rob the Niger Delta region of its oil and gas resources. The petroleum Act 1968, for instance, states clearly in section one(1) that "entire ownership and control in or under or any lands to which this section applied to all lands, including all land covered by water which is (a) in Nigeria or (b) under territorial water of Nigeria or (c) forms part of the continental shelf shall be vested in the state", thereby placing the ownership right of all minerals and mineral oil under the exclusive control of the Federal government (Okoko and Nna, 1996).

It is important to point out that the provisions of the 1968 petroleum Act were re-enacted in the 1999 constitution of the Federal Republic of Nigeria. Thus section 42, sub-section 3, (1999 constitution) states that:

> ... the entire property in and control of all mineral oil and natural gas, in under or upon any land in Nigeria or in, under or upon the territories, water and the exclusion economic zone of Nigeria shall be vested in the government of the Federation.

Clearly, this along with the land use Decree of 1978, which vests the ownership of land in the state, negates the practice of true federalism where the control and ownership of such resources are usually vested with the communities as against the central government dominated by the majority ethnic groups.

Commenting on this, Okoko and Nna (1996) noted for instance that "placing such important issues as the legislation and control of minerals and the accompanying rights to appropriate it in the central government and thus legitimizing the manipulation of the instrument of State power through revenue allocation". Continuing, they emphatically pointed out that because the minerals and oil are found in politically disadvantaged minority area of the country, it places the destiny of these groups squarely in the hands of major ethnic groups.

It does appear that this explains why derivation principles of revenue allocation has continued to be whittled down by successive administration. Furthermore, just as the Shagari government slashed derivation from 20% to 2%, the Buhari regime again reduced it to 1.5%. The Babangada government increased it to 3% through Oil Minerals Producing Area Development Commission (OMPADEC). Presently, it is 13% as enshrined in the 1999 constitution of the Federal Republic of Nigeria. As derivation was discarded, emphasis was given to other criteria such as equality of states, population, social development factors and land mass.

Okoko (2011) opined that the replacement of derivation with population and equality of states is to the interest of the major ethnic groups which are not only more populous but equally have more states and local government areas than the oil producing minority states in the Niger Delta. It therefore implies that much of the oil revenue accounting for over 85% of the government's earnings is in to sustaining the states and local government areas of the major ethnic groups, maintaining Federal government bureaucracy which is equally dominated and controlled by the three major ethnic groups, leaving the oil producing communities' impoverished.

From the foregoing, we can situate the instability in the Niger Delta to the systematic jettisoning of the principles of derivation, which formed the foundation of our Federation as a major cause of the restiveness and militancy in the region. Although 13% is accruing to the oil producing states, but there is no mention of the oil producing communities in the 1999 constitution. Therefore, the states are short- changed in the allocation of resources and this is grossly inadequate and has affected socio- economic development in the region (Okoko, *et al*, 2006).

Conclusion

The discourse above clearly showed that when agricultural products; cotton and groundnut from the North, Cocoa from the West and Palm Oil from the East were the mainstay of the Nigerian economy, revenue allocation was based on derivation, but when crude oil produced mainly from the Niger Delta region of Nigeria became the mainstay of the economy from the 1970s, the derivation principles was discarded. In its place, equality of states, population, land mass, etc were adopted to share the revenue generated from the Niger Delta region. This affirmed the contention that the revenue allocation formula was deliberately manipulated by the majority ethnic groups who used the instrument of State power to arbitrarily change the revenue allocation formula to benefit their areas at the detriment of the Niger Delta people, who did not wield state power. This has thrown up political instability in the Niger Delta region, as the people of the region continue to advocate for the reversal to principle of derivation.

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