CHAPTER ONE

THE ORIGIN AND PRACTICE OF FISCAL FEDERALISM IN NIGERIA

Background

The principles of fiscal federalism are concerned with how taxing, spending and regulatory functions are allocated among the component parts of a federation, and how intergovernmental transfers are structured among these parts.[1] These arrangements are of fundamental importance to the efficiency of the provision of public services. In Nigeria, the practice of fiscal federalism has been riddled with problems, not least of which is the contentious and sometimes acrimonious debate on how best equitable socio-economic development can be achieved within the context of a plural democracy.

This chapter begins by reviewing basic concepts in federalism. It also explains the origin of states' creation in Nigeria, the nature of fiscal relations between and among the federal and regional governments, and an appraisal of the various Fiscal Commissions that were constituted at various times in history and tasked with achieving balance and harmony in inter-governmental fiscal relations. The chapter also provides a comprehensive and systematic analysis of contending principles in revenue allocation and their concomitant political ramifications.

Conceptual Overview

Meaning of Government

The Advanced Learner's Dictionary defines government as 'the group of people who are responsible for controlling a country or a state.' It goes further to describe government as

> a particular system or method of controlling a country e.g. coalition/ communist/totalitarian government, democratic government, Federal Government. Government can as well be expressed as the activities or the manner of controlling a country.[2]

Dare and Oyewole define government as 'the structures and systems by which decisions and rules are determined and enforced for all members of the society.'[3] According to

Appadorai, government can be viewed as 'the agency or machinery through which the will of the state is formulated, expressed and realized'.[4]

The *raison d'etre* for a government is to perform those functions which members of the society cannot, by themselves, perform. There are several ways to classify governments, but for the present purpose, the guiding principle for classification shall be based on the institutional frameworks and structures between and within levels of government; defined to include not only the decision-making units, but also the decision-making processes, practices and interrelationships. Based on the foregoing criteria, government is categorized into unitary, confederal and federal.

Unitary, Confederal and Federal Systems of Government

Unitary system of government exists in a situation where there is a single level government; or even where there is a multi-tiered system, control of all government functions rests with the central government. This system of government places greater premium on uniformity and equal access to public services than it does on diversity; consequently, the system facilitates centralized decision making to further national unity. The city-states of Singapore and Monaco are single-tiered unitary governments. China, Egypt, France, Indonesia, Italy, Japan, Korea, New Zealand, Norway, the Philippines, Portugal, Sweden, Turkey and the United Kingdom have multi-tiered government based on unitary constitutions.[5]

A confederation is a system where the central government serves as the agent of the member states/units, usually without independent taxing and spending powers. Such a system obtained in the United States between 1781 and 1787. The defunct Union of Soviet Socialist Republics (USSR) also approximated to a confederation.[6] Switzerland is a confederation by law, while in practice it is regarded as a federation.

According to Suberu, 'Federalism involves constitutional and irrevocable division of governmental powers and functions on a territorial basis within a single country'.[7] It entails the division of power between central and constituent authorities, the guarantee that the constituent units have a share in the central power, and that the constituent units cannot be abrogated unilaterally by the central authority. As Tekena puts it:

> Federalism, ... is that form of government where the component units of a political organization participate in sharing powers and functions in a

> cooperative manner though the combined force of ethnic pluralism and cultural diversity, among others, tend to put their people apart.[8]

According to Friedrich, federalism is:

> the process by which a number of separate political organizations, be they states or any kind of association, enter into agreements for working out solutions, adopting joint policies and making decisions on joint problems or …, the process through which a hitherto military political community becomes differentiated into a number of organization in which the differentiated communities now separately organized, become capable of working out separately and on their own, those problems they no longer have in common.[9]

Wheare describes the system as the method of dividing powers so that general and regional governments are each, within a sphere, coordinates and independent.[10] It is a principle of organization and practice whose ultimate test is how the federal system operates.

Although the arrangement of functions and responsibilities within a federal state is usually based on some constitutional or legal framework, the constitution may be a poor guide in determining whether a political system is federal or otherwise.[11] To this school of thought, federalism should be understood, not just from the narrow perspective or confines of legal formulation but from the general and systemic interaction of socio-cultural and political factors. Nigeria, Switzerland, the United States, Canada, Germany, Malaysia, Brazil, India and Australia are some of the countries that have adopted federalism as a preferred system of discharging governmental responsibility. A federal form of government promotes decentralized decision making and, therefore, theoretically, engenders greater freedom of choice, diversity of preferences in public services, political participation, innovation, and accountability. It is also better adapted to handle regional conflicts.

Tella identifies two types of federalism on a broad scale, namely, ‘dual federalism’ and ‘cooperative federalism’.[12] The former is a situation where the constitution creates two separate and independent tiers of government with each tier having its own clearly defined areas of responsibility. A major attribute of dual federalism is competition and tension among the constituent parts. Cooperative federalism, on the other hand, refers to making federalism work through cooperation between the various levels of government. It emphasizes the partnership between the different levels of government. The various levels of governments, under this arrangement, are seen as related parts of a single governmental

system, and characterized more by cooperation and shared functions than by conflict and competition.[13]

The creation of federal polities has been either *from below*, through the consent of the constituent units such as, for example, the United States and Switzerland, or *top-down*. In the latter case, the system is imposed from the centre, as in the case of India, or by outside forces, as in the case of post World War II Germany.[14] The Nigerian federation falls within the *top-down* model. The creation of federal political system in the United States, following decolonization and the creation of independent states, was motivated by the desire of a majority of the constituent states to enhance the security and economic benefits of limiting the sovereignty of individual states by creating an 'extended republic' with a strong central authority.[15] Security and economic motives as well as the appreciation of cantonal autonomy and cultural diversity were behind the creation of the Swiss federal polity in 1848.[16]

There are three prominent aspects of federalism: political, administrative and fiscal. Political federalism deals with the division of powers among tiers of government such that within certain specified spheres, the powers exercisable by the different tiers are either coordinate or exclusive.[17] To protect the autonomy of each tier within its sphere of authority, there is usually some kind of constitutional or legal provision specifying the nature and extent of powers exercisable by each tier. Administrative federalism involves delegation of functions to lower-level governments, usually according to the guidelines or controls imposed by the higher-level government and, therefore, without the autonomy which is the characteristic of decentralization. Fiscal federalism is not just a derivative of, but also rooted in federalism as a legal and political system. Agiobenebo describes fiscal federalism as 'the scope and structure of the tiers of governmental responsibilities and functions, and the allocation of resources among the tiers of government'.[18] Specifically, fiscal federalism deals with the relations among levels of government pertaining to revenue generation, allocation and utilization in the discharge of defined responsibilities. It is the study of how competent fiscal instruments (revenue side) are allocated across different (vertical) layers of the administration.[19] It also involves the distribution of 'taxing powers' between or among the levels of government for the purpose of generating revenues that are sufficient to discharge jurisdictional functions.

Another important issue relating to fiscal federalism is the system of transfer payments or grants by which a central government shares its revenues with lower levels of government. Federal Governments use this power to enforce national rules and standards. There are two primary types of transfers: conditional and unconditional. A conditional transfer from a federal government to a province, or other territory, involves a certain set of conditions. If the lower level of government is to receive this type of transfer, it must agree to the spending instructions of the federal government. An example of a conditional transfer is the *conditional grant scheme* which the Office of the Senior Special Assistant to the President on Millennium Development Goals, OSSAP-MDGs, allocates to states every year. The funds allocated under the scheme are a portion of the *debt relief gains* granted Nigeria by the Paris Club of creditors and are transferred to pre-qualified states to be used exclusively towards the implementation of the Millennium Development Goals. An unconditional grant on the other hand is usually a cash (or tax point) transfer with no spending instructions. For example, the federal government maintains an *Excess Crude Account* into which revenues accruing above the government's budgeted benchmark from crude oil sales are credited. Occasionally, the federal government shares funds from this account to the states without imposing instructions on how the states may use the disbursements.

The idea of fiscal federalism is relevant for all kinds of government, irrespective of whether they are unitary, federal or confederal systems and *fiscal federalism* is not to be confused with *fiscal decentralization*. While the latter is practiced only in officially declared federations, the former is applicable even to non-federal states (having no formal federal constitutional arrangement) in the sense that it encompasses different levels of government which have *de facto* decision making authority. This however does not mean that all forms of government are *fiscally federal*; all it means is that 'fiscal federalism' is a set of principles that can be applied to all countries attempting 'fiscal decentralization'.[20] Fiscal federalism is a general normative framework for the assignment of functions to the different levels of government, as well as of the appropriate fiscal instruments for the carrying out of those functions. The difference between fiscal federalism and fiscal decentralization is that, while the former constitutes a set of guiding principles that help in *designing* financial relations between the national and sub-national levels of government, the latter refers to the *application* of such principles.

The financial relationship between the central government and the federating units which involves the system of transfers or grants from the centre to the units is generally regarded as *revenue allocation*. The procedure for revenue allocation is hinged on a number of factors which may be within or outside the control of the people in each locality. For example, perhaps by some natural or man-made designs, nations that emerged through the combination of pre-existing sovereign jurisdictions (e.g. states) may retain certain fiscal prerogatives while surrendering others, thereby joining in a compact which determines the fiscal aspects of the federation.

History of Horizontal Revenue Sharing in Nigeria

Until the hardening of state-based opposition to the financial hegemony of the central government in the 1970s, the most explosive issue in Nigeria's fiscal federalism involved the conflict over the appropriate formula for inter-state sharing of centrally collected revenues. Although now partly eclipsed by vertical revenue sharing conflicts, the debate over horizontal revenue sharing has never been far from the epicentre of Nigeria's federalism. Indeed, the major problem of inter-governmental revenue sharing in Nigeria has always been the formula for sharing revenue among the regions and states, that is, the horizontal revenue sharing scheme. While vertical revenue sharing debates have revolved around the determination of the relative proportions of centrally collected revenues to be allocated to the centre and the sub-national governments, horizontal revenue-sharing conflicts have evolved the issue of the appropriate principles to be used in sharing central revenues standing to the credit of the states or their localities.

Since 1946, several dozens of principles have been developed for the purpose of horizontal revenue sharing, none of which has enjoyed complete acceptance. These principles can be divided into two broad categories:

a. efficiency principles designed to allocate resources rationally to the most economically efficient units, and
b. equity principles designed to equalize the fiscal capacities of constituent units by redistributing resources on explicitly political grounds.[21]

Among the efficiency principles of horizontal allocation are derivation, independent revenue sources, absorptive capacity, tax effort and fiscal efficiency. Equity principles include even development, national interest, continuity in government services, minimum responsibility of government, financial comparability (among governments), primary school enrolment or

the social development factor, national minimum standards, equality of access to development opportunities and land mass/terrain.[22] Nigeria's revenue-sharing principles have emphasized equity over efficiency principles. This bias reflects a widely shared official commitment in Nigeria, and elsewhere, to the use of *equalizing fiscal transfers* and other redistributive strategies to maintain national unity and reduce inter-regional economic disparities. Yet, there has been a lack of consensus in Nigeria over the degree of recognition that should be awarded to efficiency principles in the overall revenue-sharing scheme.[23]

Since the reconstitution of the regions into states beginning in 1967, Nigeria's horizontal revenue-sharing practices have been dominated largely by six principles of entitlement namely, equality of states, population, social development factor, land mass and terrain, derivation, and internal revenue generation effort.[24] For instance, in 2004, the Federation Account revenues assigned to the states were shared among the units on the basis of the following five indicators: equality of states (40%), relative population (30%), social development factor (10%), internal revenue generation effort (10%), land mass and terrain (10%).[25]

Equality of States

This principle effectively entered into Nigeria's revenue-sharing practice after the creation of twelve states in 1967. Faced with the problem of sharing revenues among the newly created states, the Federal Government simply divided the share of the old North equally among the six successor states to the region. Following the end of the civil war, however, the norm of inter-state equality in revenue sharing was elevated to a general principle of allocation throughout the federation.[26] Throughout the 1970s, one-half of the federal revenues assigned to the states were shared equally among them, while the other half was distributed on the basis of population. Although the weight assigned to the equality principle was reduced to 40 percent in 1981, the principle remains the single most important factor in the horizontal revenue allocation formula.[27]

The norm of units' equality of states has been defended on various grounds. First, the principle gives recognition to the reality that each of the states has to sustain a basic minimum set of public functions and institutions, irrespective of its size or population. It is in this regard that the norm of state equality is often referred to as the principle of minimum responsibility of government. Second, the standard of state equality upholds a fundamental

axiom of *"symmetrical federalism"*, according to which each unit in the federation is constitutionally and legally equal to any other unit. Third, compared to other principles of entitlement, the equality principle is virtually unmatched in its simplicity, verifiability, certainty, ease of application and non-reliance on the use of technical and often unavailable socio-economic data. Fourth, given the commitment of successive federal administrations to establishing states of relatively equivalent populations, the principle of inter-unit equality does not necessarily produce *per capita* imbalances in revenues available to the states. Fifth, the equal distribution of revenues among states of relatively equal populations could promote the basic goals of equity, even national development, and national integration. Finally, the application of the equality principle helps to reassure or compensate states that are not populous, large, or rich enough to benefit from other principles of fiscal allocation.[28]

In spite of its seemingly obvious advantages, however, the principle of equality has promoted profound criticisms. One major drawback of the equality principle according to Suberu, is its spurious assumption of comparability or equivalence in the conditions of the states.[29] According to the author, no two states are exactly equal in economic circumstances, geographical conditions, or population. Thus, despite the long-standing official commitment to the creation of states of approximately equal populations, it has not been possible to make all the states exactly or nearly identical. Consequently, under the impact of the equality principle, high population states have essentially remained relatively under-funded on a *per capita* basis in relation to the low population states. Predictably, the more populous states have been the most persistent and strident opponents of the equality principle. The second major limitation of the equality principle is the strong, unremitting pressures it generates for the creation of new states. The application of the equality principle means, in effect, that a greater share of federal revenues can be obtained by the fragmentation of an existing state into two or more units, each of which can then claim its equal share of the portion of the Federation Account that is distributed on the basis of inter-unit equality. The application of the equality principle means, in effect, that a greater share of federal revenues can be obtained by the fragmentation of an existing state into two or more units, each of which can then claim its equal share of the portion of the Federation Account that is distributed on the basis of inter-unit equality.[30] Another weakness of the equality principle, according to Suberu, is that it provides no incentive for the states to mobilize independent revenues of their own and thus encourages the tendency toward fiscal lethargy at the sub-national level. A principle that guarantees each state's substantial revenue by virtue of the simple

fact that it constitutes a governmental unit in the federation can only induce a sense of complacency among the states.[31]

Population and the Social Development Factor

Population has been a long–standing and contentious principle of revenue allocation in Nigeria. As far back as 1951, for example, the Hicks-Phillipson Commission implicitly recommended the use of the population principle through need, along with derivation and national interest in sharing central revenues among the regions.[32] Subsequent commissions also emphasized the importance of the population factor; if not explicitly then implicitly through the recommendation of such surrogate measures as: needs, primary school enrolment, number of adult male tax payers, or the social development factor.

From 1970 to 1980, half of federal statutory grants to the states were distributed on the basis of population. In 1981, however, the weight attached to the population factor was reduced to 40 percent. In 1990, the principle was further relegated to a weight of 30 percent. Notwithstanding this decline, aggregate population remains the second most important factor of allocation (after inter-unit equality) in Nigeria's horizontal fiscal federalism, and population–related factors (primary school enrolment, ratio of hospital beds to population, and so forth) remain the single most important set of factors shaping the country's revenue sharing practices.[33]

The justification for the relatively strong emphasis on population is not far-fetched. To virtually all of Nigeria's officials, population is the veritable indication of expenditure obligation and all things being equal, the more people there are in a state, the greater the need for the provision of social services and amenities. Moreover, the use of population statistics, which are relatively easy to assemble and verify, helps to obviate the need for more technical and often inaccessible socio-economic data.

The population principle has been extensively and severely criticized. In the view of Suberu, the use of the population principle in revenue allocation has been an important source of the population sensitivity and contentiousness surrounding population statistics in Nigeria.[34] Consequently, the country's census exercises have often degenerated into fierce ethnic and regional contests, and the resulting population figures have usually been severely tarnished by actual or alleged acts of falsification or inflation of figures. Second, the use of unreliable, controversial, or outdated population data distorted the revenue sharing system between

1964 and 1991. Within the mentioned period, the Nigerian Federal Government relied on projections from the 1963 census figures in making population–based grants to the states.[35] Yet, it was widely known that the figures were cynically and extensively inflated and may have been rendered even more dubious by probable changes in the composition and distribution of the nation's population since the organization of the 1963 Census. Third, several critics have argued that raw aggregate population data may say little about the economic circumstances or need of a state. To be meaningful and useful, it is argued, the population principle must incorporate such characteristics of the population as sparsity, density, age composition, rural-urban distribution, and so on. Until the introduction of the social development factor, however, these characteristics were largely neglected in the implementation of population–based allocations in Nigeria. Fourth, many of the smaller Nigerian states complained that they have been unfairly short-changed by the use of the population factor. They contend that while a large population may mean a heavy expenditure obligation, such a population may also imply a higher taxable base.[36] So far, however, the use of the demographic factor in resource allocation in Nigeria has focused exclusively on the expenditure-inducing aspect of the population equation, ignoring its possible revenue generating dimension. Finally, contrary to the expectations of those who advocate population as the ultimate principle of equitable distribution, allocation on population basis is only "moderately equalizing" because it provides no positive assistance in reducing the disparity between wealthy and poor regions but, rather, merely prevents it from increasing. Alternative principles of allocation must, therefore, be implemented if effective equalization is to be achieved.

Since it was introduced under the revenue-sharing scheme of the second republic, the social development factor has mitigated some of the weaknesses associated with the use of raw population data. Under the 1981 Revenue Allocation Scheme, the social development factor was defined to comprise direct and inverse primary school enrolment and was assigned a weight of 15 percent. To assist the states in maintaining those of their population already in school, direct primary school enrolment was assigned a weight of 11.25 percent. And to compensate or encourage those states that had lower primary school enrolment relative to population, inverse enrolment (or the proportion of children of primary school age not yet in school) was assigned a weight of 3.75 percent.[37]

In 1989, however, the Revenue Mobilization Commission reduced the weight attached to the social development factor by five percentage points and introduced fundamental changes in the factor's composition and computation. Simply put, the 10 percent weight now allocated to the social development factor is divided among education, health and water in the ratio of 4:3:3, respectively. The education component of the social development factor was defined to include direct primary school enrolment and direct and inverse secondary school enrolment. The health component gave equal recognition to the direct inverse proportion of hospital beds per state, while the allocation for water supply was divided equally between the 'average annual rainfall' (for state's headquarters for the five most current years) and the territorial spread of water supply in the state.[38]

Derivation and the Compensation or Protection of Mineral–Producing Areas

The derivation principle has aroused the most heated arguments in Nigerian revenue–sharing debates. The derivation or origin principle of distribution stipulates that a significant proportion of the revenues collected in the jurisdiction of a sub-national government should be returned to that government. The derivation principle is put to use in the sharing of revenue among the various units making up the federation in the proportion of certain taxes assumed to have been paid by the citizens. Revenue allocation on the basis of derivation penalizes the relatively backward or poor states. Besides, the principle is not easy to apply as the burden of taxes collected within a state is not necessarily borne by the residents of that state alone.[39] The derivation principle dominated revenue-sharing practices and politics during the early stages of federation in Nigeria. In the late 1950s and early 1960s, for instance, all export duties on agricultural commodities and import and excise duties on tobacco and motor fuel were simply returned to the region of production or consumption. But the derivation principle soon came under severe criticism for very obvious reasons. Basically, the principle had a detrimental impact on interregional equity and national unity. It tended to make the rich regions richer and to arouse invidious opposition and resentment from the relatively less endowed regions. The application of the derivation principle to the allocation of growing oil revenues during the 1970s accented the economically inequitable and politically contentious nature of the principle. For instance, the approved estimates of statutory grants for the 1974–1975 fiscal years allocated 241 million naira to the oil-producing states of Rivers and Mid-West, which had a combined population of 4.1 million, whereas the Western, East-Central, North-Western and North-Eastern States, with a total population of 30.2 million received 102.3 million naira under the same scheme.[40] This imbalance was the result

of a policy that returned 45 percent of onshore oil rents and royalties to the states of derivation or production. But such egregious asymmetry in the financial fortunes of the states served to galvanize opposition to the derivation principle and nudge the central government into downgrading the principle in favour of revenue–sharing strategy that increased the amount of resources available for distribution among all the states.

Apart from its economic impact and politically contentious nature, the derivation principle has been criticized for restricting the capacity of national authorities to initiate and implement redistributive or macroeconomic reforms, requiring the use of often unavailable economic data regarding the inter-regional consumption and production of goods, often rewarding units not on the basis of any superior productive effort but by dint of geography, and unleashing political counter pressures against the free mobility of goods and services in the federation. Given these limitations, it is not surprising that the derivation principle has sometimes been condemned as the "devil" of Nigeria's fiscal federalism. Both the Aboyade Technical Committee and the Okigbo Commission recommended the elimination of the principle from Nigeria's revenue-sharing practices as it threatened national integration.[41] Only the intervention of the Shagari' Government, which enjoyed considerable electoral support among the southern ethnic minority oil-producing states, ensured the survival of the derivation principle during the Second Republic, when 2 percent of funds in the Federation Account were assigned to the mineral-producing states on the basis of derivation.

Indeed, over the years, the principle has suffered a systematic decline. Whereas in the late 1960s, excise and import duties on tobacco and petroleum products were transferred wholly to the state of derivation, today these revenue receipts are paid into the Federation Account, which is shared on the basis of a principle that gives only relatively marginal recognition to the derivation criteria. Moreover, as far back as 1971, all offshore mineral revenues were rested in the Federation, thereby depriving the littoral oil-producing states of their previous claim to about half of the rents and royalties from these revenues. The systematic downgrading of the derivation principle has fueled criticisms from ethnic minority elites in the oil-producing states who see the decline of derivation as just another expression of oppression and domination of minorities in the Nigerian federation.[42]

Nevertheless, the decline of the derivation principle has occurred in tandem with a growing recognition of the need to devise a system of special grants (as opposed to shared revenues) to compensate the mineral-producing areas for the ecological and social costs of oil

extraction. As extensively documented by the elites of the mineral-producing states and areas, these costs include the loss of agricultural land, the destruction of aquatic life and the pollution of the general environment, all of which have resulted from oil spillage, gas flares, the construction of oil pipelines and related oil producing activities.[43]

In 1977, the Aboyade Technical Committee recommended that 3 percent of the Federation Account be allocated to the mineral-producing areas and to other communities beset by ecological or related problems. Some three years later, the Okigbo Commission proposed devoting 2 percent of the Federation Account to the amelioration of the mineral-producing areas' special problems.[44] Although this amount was increased to 3 percent of the Federation Account in the initial (and eventually nullified) 1981 Revenue Allocation Law, it was eventually reduced to 1.5 percent in the revised 1981 Revenue Allocation Act endorsed by President Shagari in January 1982.[45] Following persistent and increasingly strident demands by the oil producing communities, however, the Babangida Administration in June 1992, increased the special fund for mineral-producing areas to 3 percent of mineral revenues in the Federation Account.[46]

By the revenue sharing arrangement in effect as at the time of return to democratic rule in 1999, only 4 percent of mineral revenues in the Federation Account was exclusively allocated to the mineral-producing areas and states (that is, the 3 percent special fund for the rehabilitation of mineral-producing areas plus the 1 percent of mineral revenue paid to the oil-producing states on the basis of derivation). Disenchanted with this negligible allocation, spokesmen for the oil-producing areas demanded the following:-

a. The return to the affected oil-producing areas of all oil rents and royalties (that is, all federally collected oil revenues except the petroleum profits tax).
b. The payment by the Federal Government and the oil companies of reparations to the oil-producing communities for past and ongoing expropriation, despoilment, or neglect of these communities.
c. The abrogation of all legal instruments, including constitutional provisions, that vest in the Federal Government ownership and control of all the country's onshore and offshore minerals, oil and natural gas.
d. The discontinuation of the distinction between onshore and offshore oil revenues in the application of the derivation principle.

e. The enactment of appropriate legislation that would require the state-backed multinational oil companies to protect the environmental rights and identify with the developmental aspirations of their host communities.
f. The establishment of new states, localities, and other appropriate developmental entities in the oil-producing areas as a means of improving the capacity of government to respond adequately and promptly to the special problems and needs of these areas.
g. As an ultimate solution to the problems of the oil-producing communities greater political and economic autonomy.[47]

The campaign for the rights of Nigeria's oil-producing communities was most effectively prosecuted and popularized (both nationally and internationally) by Ken Saro-Wiwa, a noted writer and leader of the Movement for the Survival of the Ogoni People, MOSOP, which published an *Ogoni Bill of Rights* in 1990. In November 1995, the Nigerian Military Government provoked severe international sanctions when it executed Saro-Wiwa and eight other Ogoni activists following their convictions for the May 1994 mob murders of four pro-government Ogoni leaders.[48] By the time of Saro-Wiwa's execution, however, the oil-producing areas' demands for economic rights had yielded an important concession. In October 1995, General Sani Abacha formally approved but did not implement, a 'consensus resolution' of the 1994-95 National Constitutional Conference that 'the principle of derivation shall be constantly reflected in any approved formula as being not less than 13 percent of the revenue accruing to the Federation Account…' directly from any natural resources.[49] This resolution was eventually codified as section 162(2) in the 1999 Constitution. In April 2000, the Federal Government began implementing the provision with retroactive effect from January of the same year. The payment of the 13 percent derivation revenues to the oil-producing States marked perhaps the first major achievement of the Fourth Republic in the federal management of regional conflict. Yet misgivings persist in the oil-producing areas over many aspects of the derivation revenues.

Land Mass and Terrain

Land mass and terrain have usually been advocated as legitimate principles of revenue sharing by two groups of geopolitical interests in the federation–the states of Nigeria's North (which account for some 70 percent of the country's territory) and the states of the swampy, oil-rich Delta region of the country's south. These interests contend that their extensive or difficult geographical terrain imposes additional budgetary obligations, which

should be partly offset by the revenue-sharing scheme.[50] Except for a short-lived appearance in the nullified 1981 Revenue Allocation Law, however, the principle of land mass/terrain did not figure in Nigeria's revenue-sharing scheme until 1990, when it was virtually unilaterally imposed by the Babangida Administration.[51]

Since 1990, land mass and terrain (three main terrain types are recognized: wetlands, plains and highlands) have been assigned a combined weight of 10 percent (5 percent each for land mass and terrain) in the interstate allocation formula.[52] Critics identify two major problems in the utilization of land mass as a factor in horizontal revenue allocation. The first relates to the predictable southern opposition to the very obvious advantage that the factor of land mass confers on the North. As a counterpoise to this northern advantage, southern delegates at the 1994-1995 National Constitutional Conference pushed for the introduction into the horizontal sharing formula of the countervailing factor of population density– a variable that can only further complicate the politicization of population data in Nigeria.[53] The second major problem with land mass and terrain as a principle of revenue sharing in the words of Suberu, 'pertains to the surreptitious manner in which it was introduced'.[54]

Internal Revenue Generation Effort or Independent Revenues

There is a growing realization in Nigeria for the need to encourage the states to generate or mobilize independent revenues of their own so they will come to regard federal allocations as a supplement to, rather than as the major source of, their revenues. Such an outcome would have the distinct advantage of reducing the intensity and destructiveness of current intergovernmental and inter-segmental competition for centrally controlled resources. The importance of autonomous revenue generation by the regions/states was emphasized in the reports and recommendations of most of the revenue allocation commissions since the 1950s, especially the 1953 Chick Commission, the 1977 Aboyade Technical Committee, the 1980 Okigbo Commission and the 1989 Danjuma Commission that gave birth to the National Revenue Mobilization, Allocation and Fiscal Commission (NRMAFC).[55] But it was the Second Republic[56] that the principle of independent state revenues was explicitly and formally incorporated into Nigeria's revenue-sharing scheme. Under the interstate sharing formula of the revised 1981 Revenue Allocation Act, the principle of internal revenue generation effort was assigned a weight of 5 percent, in line with the recommendation of the Okigbo Commission.[57] The 1989 NRMAFC report however, recommended that the weight be increased to 20 percent.[58] The Babangida administration reduced NRMAFC's

proposed weight by half and shifted the remaining weight of 10 percent to the new principle of land mass and terrain.

Two main problems have plagued the application of the principle of internal revenue generation effort. First, given the absence of reliable data on the budgets and economies of the states, there has been a great deal of confusion regarding the proper measure for ascertaining the internal revenue generation effort of the States. After a protracted search for an adequate measurement of independent revenues, NRMAFC eventually settled for what it called a practical, incremental indicator of internal revenue effort; the percentage increased in internal revenue generated by a state in a specified period over the preceding period.[59] This measure of independent revenue effort differs significantly from the measure recommended by the Okigbo's Commission (the ratio of total internal revenue to total expenditures) or the measure approved by the Shagari administration (the ratio of internal revenue to recurrent expenditures). NRMAFC did recognize the inconclusiveness of the search, and it proclaimed its receptiveness to any novel idea for measuring and enhancing the autonomous fiscal capacity of the states.[60]

The second fundamental problem involves the intensive opposition to the principle of internal revenue generation by several states, particularly in the relatively economically backward north, that feel they have little room for increasing their internally generated revenues either because they are poor or because they have fully exhausted their revenue sources.[61]

Decentralisation and the Practice of Fiscal Relations in the Colonial Era

Nigeria was created as one entity in 1914 following the amalgamation of the Southern and Northern Protectorates. The new entity was administered as a unitary state under the colonial administration until 1946. The idea of state creation in Nigeria originated from Sir Bernard Bourdillon, who, in 1939, in order to enhance administrative efficiency, divided the western region into two.[62] In 1946, the Richard Constitution divided the country into three regions, namely, the Northern, Western and Eastern regions. These regions were assigned limited responsibilities and the need arose to formulate financial and administrative procedures for them. To this end, the Phillipson Commission was appointed in 1946 to fashion out financial and administrative procedures for the country. Following the recommendations of the Commission, regional revenues were grouped into 'declared' and 'non-declared'. Declared

revenues were exclusive to the regional authorities and included personal income tax, licenses, fees, rent, property tax, while non-declared revenues were exclusive to the central government, which also determined the proportion to be transferred to the regional governments. The indices used to allocate revenue to the regions were derivation, even-progress and population, in that order of importance.[63]

This financial arrangement was used until 1951 when the McPherson Constitution replaced the Richard Constitution. The McPherson Constitution devolved more responsibilities to the regions as a result of which the Hicks - Philipson Commission was appointed the same year to develop a new scheme that would achieve a more equitable distribution of revenue. The Commission recommended more powers to the regions to raise, regulate and appropriate certain tax revenues. It also recommended that revenue be shared on the principle of derivation, need and national interest.[64] These recommendations were adopted and operated till 1953 when the Chick Commission was appointed to review the existing revenue allocation scheme. The commission was mandated to ensure that the total revenue available was allocated in such a way that the principle of derivation was followed to the fullest and compatible with the need of the federal and the regional governments. The commission carried out its mandate and further expanded the revenue allocation scheme to include import and excise duty, mining rent, royalties and personal income tax.

The McPherson Constitution was superseded by the Lyttleton Constitution of 1954, which was the first true federal constitution of Nigeria. As a result of the desire of the Federal Government to grow the internally generated revenue and enlarge the fiscal autonomy of the regions, the Chick Commission's report therefore, became inadequate under the new system. In 1958, the Raisman Commission was appointed to review the tax jurisdiction as well as the revenue allocation scheme from federation taxes such that the regions would have the maximum proportion of the revenue within their jurisdiction. For the first time, the Commission created the Distributable Pool Account (DPA) into which a certain percentage of the federally–collected revenue was paid and shared among the regions. The principles for sharing this revenue were derivation and need. Using these principles, the Commission came out with a revenue allocation formula that allocated the funds in the DPA to the regions as follows: Northern Region: 40 percent; Eastern Region: 31 percent; Western Region: 24 percent; and Southern Cameroon, which was then part of Nigeria, 5 percent. The Federal Government retained 70 percent of all federation revenue for its services and transferred 30 percent to the DPA for distribution among the regions.[65]

Post Colonial Fiscal Relations among Levels of Governments

1960-1966

By 1963 when Nigeria became a republic, the revenue allocation of the Raisman Commission had become unsatisfactory for two main reasons:

a. the creation of the Mid-western region out of the Western region, resulting in a change in structure from a three–region arrangement to a four-region arrangement; and

b. the replacement of the Independence Constitution of 1960 by the Republican Constitution of 1963.

Under the Republican Constitution, the Binns Commission was set up to review and make recommendations on the federation revenue comprising mining, rent and royalty, import and export duties, and other taxes, and on the distribution of funds in the DPA. The Commission recommended that transfer of funds from the federation revenue to the DPA be increased from 30 to 35 percent and that the principle of 'financial comparability' be used in addition to need and even development to share the funds among the regions.[66] The revenue allocation formula that was fashioned out by the Commission allocated 42 percent to the Northern Region, 30 percent to the Eastern Region, and 20 and 8 percent to the Western and Mid-Western Regions respectively.[67]

1966-1975

Following the military coup on 15 January 1966, the Constitution was suspended, and in May of the same year, the new military leader, General J.T.U. Aguyi Ironsi promulgated the Unification Decree No. 34 of 1966. The decree changed the formal designation of the federal government to National Military Government, relegated the regions to groups of provinces and unified the regional and federal public services. Further, under the decree, the constitutional mandate of the central government was absolute. Ironsi's government was short-lived and under General Yakubu Gowon's administration that succeeded it in July 1966, the federal structure of the country was restored. General Gowon further restructured the erstwhile four regions into twelve states. The new States were North-Western, North-Central, North-Eastern, Benue-Plateau, Kano, Kwara, Western, Mid-Western, East-Central, South-Eastern, Rivers and Lagos States.[68]

The Federal Military Government empowered the regional/state military governments to assume the constitutional responsibilities of their civilian predecessors in a modified form. Specifically, military governors were delegated the powers to make and implement laws with respect to residual and concurrent subjects under the old civilian constitution, with the provisions that state actions on concurrent matters should be preceded by consultations with the Federal Government. But because these decrees were non-justiciable, even the modest autonomy envisioned for the states under the military regime remained insecure. In essence, the legal status of Nigerian federalism under military government was profoundly ambivalent as the relevant enactments conferred seemingly absolute powers on the centre, while simultaneously providing for the legal continuity and integrity of constituent governments, albeit in a radically modified form. In order to resolve the difficulty created by the abolition of the regions, Decree No. 15 of 1967 was promulgated which provided for the allocation of a percentage of the DPA to the group of states that were created from a particular region. To this effect, the six States created out of the defunct Northern Region (North-West State, North-Central State, Kano State, Benue–Plateau State, North-Eastern State, and Kwara State) were to share 42 percent of the funds in the DPA.[69] The same condition applied to other regions. Decree No. 13 of 1970 adopted population and equality of states as the bases for revenue sharing among the states while Decree No. 2 of 1971 gave the Federal Military Government absolute right to revenue from offshore rent and royalties. Decree No. 6 of 1975 stipulated that all revenues meant to be shared among the states had to pass through the DPA except 20 percent of onshore mining rent and royalties which would be passed directly to the states of origin on the principle of derivation.[70]

On 29 July 1975, General Murtala Muhammed became the Head of State after toppling Gowon in a bloodless coup. The new military administration appointed a Commission headed by Justice Akinola Aguda to advise on the creation of new states and establish a new federal capital at Abuja, in the central area of the country. The Aguda Commission proposed seven more states and, although General Muhammed was killed in an attempted coup on 13 February 1976, his successor and erstwhile deputy, General Olusegun Obasanjo went ahead with the creation and announced seven more states bringing the total number of states to nineteen. The new states were Bauchi, Benue, Borno, Imo, Niger, Ogun and Ondo. The creation of new states was to assuage the agitations, especially among the less populous ethnic groups in the country.

1975-1979

In 1977, the Federal Military Government set up the Aboyade Technical Committee on Revenue Allocation to fashion out a revenue allocation which would:

a. depoliticize revenue sharing in Nigeria;
b. guarantee each tier of government enough revenue commensurate with its responsibilities;
c. discourage the possibility of the Federal Government having so much funds that could enable it completely to take over the normal functions of the lower tiers of government; and
d. enable local governments to undertake meaningful grassroots developments.[71]

In considering fiscal jurisdiction and revenue assignments among the levels of government, the committee weighted two options and later chose the one they considered to be most appropriate. According to Professor Aboyade:

> In consideration of fiscal jurisdiction and revenue assignment among the various levels of government, two options were opened to us. We could arbitrarily decide on which level of government was responsible for collecting and/or retaining particular sources of revenue, and then assign particular functions that could adequately be catered for, given the resources available at that level of government. Alternatively, we could decide on which functions should be performed by the respective levels of government and then allocate funds enough to carry out such functions efficiently. We considered these two options and elected the second; because we believed it is a neater arrangement, in the sense that it is easier in a given period of time to reallocate resources than to reallocate functions among levels of government. The power and functions of the constituent parts of a federal system are normally entrenched in the supreme law of the land, which is the Constitution. The provisions for amending such entrenched provisions are usually very stringent, and may in any case take the life span of a revenue arrangement before a constitutional amendment could be effected. Having been persuaded by the need to match available resources with expenditure functions at the various levels of government, and the need to take a decision on the latter before

> the allocation of fiscal jurisdiction, we then start to look at the possible and feasible allocation of expenditure functions within a federal system and in the Nigerian setting.[72]

In the interest of federalism, the committee recommended that fiscal policy should move in the direction of transferring more constitutional functions and fiscal responsibilities from the Federal Government to the lower tiers of government. With efficiency and economic consideration as a guide, the committee allocated functions such as defence and security, external relations, inter-state and international roads, ports facilities, railways, airport facilities, power, communications, higher education and heavy industries to the Federal Government. The Committee recommended that states should be vested with secondary education, health, urban water supply, housing, lighter infrastructures, agriculture, light industries, town and country planning and rural electrification. Finally, local governments were recommended to be responsible for sewage disposal, maintenance of feeder roads, primary education, market stalls, rural health and cottage industries.

Having settled with the constitutional functions of the various levels of government, the committee then allocated fiscal powers and tax revenues to each level to enable them perform efficiently the broad functions assigned to them. The Federal Government was given jurisdiction over the following sources of revenue: import duties, excise duties, export duties, mining rents and royalties, petroleum profit tax, company income tax, capital gains tax (legal basis only), personal income tax (legal basis only), personal income tax of the armed forces, external affairs officers and federal capital territory (retention), sales or purchase taxes (legal basis only), stamp duties (legal basis only).[73]

States were given jurisdiction over the following: sales or purchase taxes (except on commodities so designated by the Federal Government) (administration and retention), football pools and other betting taxes, estate duties, gift tax, land tax (other than agricultural land), land registration fees (legal basis only), capital gains tax (administration and retention), personal income tax (administration and retention), company tax (administration only), stamp duties (administration and retention).[74] The local governments were conferred with jurisdiction over the following sources: property tax, market and trading license and fees, motor vehicle tax and drivers license fees, land registration fees (administration and retention), license fees on television and wireless radio (administration and retention).[75]

The Committee, among other things, also recommended that all federally collected revenue, except personal income tax collected by the federal or state government, be transferred into the Federation Account and shared as follows: 57 percent to the Federal Government, 30 percent to the states jointly, 10 percent to the local government jointly, and 3 percent to the Special Funds Account to be administered by the Federal Government in meeting national emergencies.[76] The committee recommended the following principles and factors as bases for sharing the funds among states:

a. equality of access to development;
b. national minimum standards for national integration;
c. Absorption capability to be measured by the proportion of actual capital expenditure to the planned capital expenditures;
d. independent revenue efforts to be measured by internal tax revenue and recurrent expenditure and;
e. fiscal efficiency to be measured by the proportion of personal emolument to recurrent expenditure.

For the first time, direct provision was made for local governments in the Federation Account. Also, the states were to pass on to their local governments, a certain percentage of their internally generated revenue. In accepting the committee's recommendation on the sharing formula, the Federal Government added the 3 percent allocation to special funds to its own share. The final revenue allocation formula that emerged, therefore, was 60, 30 and 10 percent, for the federal, state and local governments, respectively.[77]

The Impact of the 1979 Constituent Assembly on Nigerian Fiscal Relations

Under the military administration of Murtala/Obasanjo a Constituent Assembly was inaugurated to fashion a workable constitution for the forthcoming democratic government in 1979. The Constitution Drafting Committee of the Assembly presented to the military government a draft constitution that incorporated the recommendations of the Aboyade Technical Committee. The draft Constitution declared Nigeria as a 'Federal Republic'. The basis for the change from parliamentary to presidential system as evidenced in 1979 Constitution was the desire of the administration to establish a more centralized and integrated polity.[78] The drafters of the new Constitution sought to replace the dual, divided, and weak executive of the first republic with a single, effective symbol of federal executive authority and national unity.[79] Moreover, a presidential system is regarded as more consistent

with Nigeria's federal structure and democratic aspirations for three different reasons. First, the separation of powers between the executive and the legislature in presidential systems (unlike the parliamentary system) was considered to be more congruent with the federalist principle of constitutionally dispersed authority. Second, the coordinate status assigned to second legislative chambers in presidential federations (in contrast to the parliamentary tradition of establishing weak second chambers) was expected to give more effective protection to states and minority rights. Third, the presidential system's fixed electoral cycles (unlike the discretionary electoral cycles associated with parliamentary systems) would presumably be more effective in reducing the already enormous advantages of incumbency in the Nigerian setting.[80]

1979-1983

The Shagari Administration considered the Aboyade Committee revenue sharing indices as too technical and unworkable. It therefore set up the Okigbo Revenue Allocation Commission in November 1979, about one month into office, to review the recommendations of the Aboyade Technical Committee as well as other related matters and fashion out workable and acceptable revenue allocation arrangements. The committee submitted its reports on 30 June 1980. It recommended that funds in the Federation Account be shared as follows: the Federal Government: 55 percent; state governments: 30.5 percent; local governments: 10 percent, and special funds: 4.5 percent. The 4.5 percent allocation to special funds was to be shared on the basis of 3.5 percent to mineral mining states and 1.0 percent for ecological problems.[81]

Following the adoption of Okigbo Commission report, several changes in revenue allocation formula and arrangements were carried out by successive governments, oftentimes in budget announcements. For example, the Federal Government's share of the Federation Account was reduced from 55 percent to 50 percent in 1990, and again to 48.5 percent in 1993.[82] In addition, with the interlude of civilian rule between 1979 and 1983, the state governments predictably sought to regain some measure of constitutional autonomy and fiscal capability. In order to reassert their rights to generate independent revenues, several state governments revived such previously abolished independent revenue sources such as poll, community and casino taxes.[83]

1983-1999

The modest financial gains made by the states during the Second Republic (1979-1983) were reversed after the re-imposition of military rule at the end of 1983. Thus, while over time, the local government's statutory share of the Federation Account increased from 10 percent in 1983 to 15 percent in 1990 and again to 20 percent in 1992, the states' share declined from 35 percent to 24 percent during the same period. Meanwhile, the Federal Government retained 48.5 percent of the Federation Account for its own use, while assuming direct or indirect responsibility for the administration of another 7.5 percent of the Federation Account designated as special funds.[84]

On 23 September 1987, the Babangida administration increased the number of states of the federation to 21 with the creation of Akwa Ibom and Katsina States; one each from Eastern and Northern Regions. The creation of these two new states generated pressures among other sections of the country for the creation of more states out of the former regions. Due to these persistent pressures, the Babangida government created additional nine states on 27 August 1991. The additional states were Abia, Adamawa, Delta, Enugu, Jigawa, Kebbi, Kogi, Osun and Taraba states. This brought the total number of states of the federation to thirty. On 1 October 1996, military Head of State General Sani Abacha created six new states bringing the total number of states to the current thirty six. These were Bayelsa, Ebonyi, Ekiti, Gombe, Nassarawa and Zamfara.

As earlier stated, the period of military rule witnessed a continuous decline in the financial position of the states owing to the reduction of states' share of revenue allocation relative to 1983 levels. This trend was further aggravated by the violation of revenue allocation law by military administrations. Successive central military administrations simply ignored constitutional provisions that required the federal government to pay all federally collected revenues (with the exception of the income taxes of the military, police, diplomatic personnel and residents of Abuja, the Federal Capital Territory) into the Federation Account for redistribution among the three tiers of government.[85]

Several other measures were adopted by the military government between 1984 and 1999 that further contributed to fiscal recentralization such as the replacement of the state administered sales tax with the federally administered Value Added Tax. Another instance was the unilateral revision of personal income tax rates and the regulation of the residual

taxing powers of the states through the promulgation of the Taxes and Levies Decrees of 1998.[86] The VAT is centrally collected by Federal Inland Revenue Service as an agent of the Federal Government and paid into the VAT Pool Account. At inception, the Federal Government was to retain 20 percent of the VAT proceeds while the states were to share the remaining 80 percent.[87] The local governments were not expected to benefit from the sales tax which VAT replaced. In January, 1995 however, the revenue generated from VAT was shared on a ratio of 50: 25: 25: for federal, state and local governments before it was revised in 1996 to 35:40:25: percent for Federal, State and Local governments.[88] The formula was further adjusted in the 1999 Budget on the basis of 15:50:35 percent for Federal, State and Local Governments respectively.[89] Because of centrist regulations and manipulations, especially the underpayment of the federal revenue into the Federation Account, the Federal Government's share of public expenditures expanded dramatically from 52 percent in 1983 to 74 percent in 1995, while the state governments' share declined from more than 40 percent to less than 20 percent during the same period. A major consequence of the military's disengagement from the administration of the economy in 1999 was to put an end to the more egregious abuse of revenue allocation that had existed since 1984. However, pressures for the alteration of the entire vertical revenue sharing formula in favor of the sub-federal tier have continued and even intensified.[90] The Political Bureau- a Presidential Panel made up of political scientists- that coordinated the debate on Nigeria's political future during 1986 and 1987 reported general public support for a revenue sharing scheme that would put the federal and state's share of the Federation Account at 40 percent apiece with the localities receiving the remaining 20 percent. The Bureau also referred to:

> A considerable body of opinion advocating the re-allocation of fiscal powers among the three tiers of government to give more powers to the local and state governments in the collection of revenue in their areas of jurisdiction.[91]

The Revenue Allocation Committee of the 1994 - 1995 National Constitutional Conference proposed the allocation of only 33 percent of the Federation Account to the Federal Government and 32.5, 20, and 14.5 percent for states, localities, and special funds respectively.[92]

Horizontal Revenue Allocation under the 1999 Constitution

The 1999 Constitution of the Federal Republic of Nigeria reechoes many of the familiar themes in horizontal revenue allocation formula. The allocation principles recognised by the Constitution are population, equality of States; internal revenue generation, land mass, terrain, population density and derivation. Section 162 (2) of the Constitution provides that:

> The President, upon the receipt of advice from the Revenue Mobilisation Allocation and Fiscal Commission, shall table 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:
>
> Provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than thirteen per cent of the revenue accruing to the Federation Account directly from any natural resources.

In August 2001, the Revenue Mobilisation, Allocation and Fiscal Commission submitted a formula to President Obasanjo in compliance to the constitutional requirement. While deliberations were still going on, the Supreme Court delivered judgment in the case of *Attorney General of Abia State & 2 others Vs. Attorney General of the Federation & others (No. 2)* on 5 April 2002[93] in which the court nullified the practice of first line charges on the Federation Account. Prior to the judgment, the Federal Government deducted from the Federation Account funds meant for the Judiciary; servicing of external debts; allocation to the Federal Capital Territory; and Joint Venture Agreements and priority projects of the Nigerian National Petroleum Corporation before the balance from the Federation Account was shared among the three tiers of government. Following the judgment of the Supreme Court abolishing first line charges, the Commission withdrew the formula earlier submitted in August 2001 and re-submitted a new formula reflecting the implications of the Supreme Court judgment to the president in December 2002. However, the Revenue Allocation Formula Bill has not been passed by the National Assembly to date. Save for slight modifications, the formula being used to allocate revenue from the Federation Account among the tiers of government is that introduced by the Federal Military Government since 1992. The 1992 formula was subjected to series of review through Executive Orders between 2002 and 2004. The latest of such Executive Orders was issued in March 2004 and is the basis for allocation of revenue to date. The formula is as follows:

With 13 % Derivation:

Federal Government:	46%
State Government:	23%
Local Government:	18%
Derivation:	13%
Total:	**100%**

Net of 13% Derivation:

Federal Government:	52.68%
State Government:	26.72%
Local Government:	20.60%
Total:	**100%**

The Federation Account is just one of several accounts from which the three tiers of the Federation allocate revenues. Another account which is the subject of horizontal revenue sharing is the Value Added Tax Pool Account. Section 40 of the Value Added Tax Act, as amended, provides that proceeds of VAT Account should be allocated on the basis of 50 percent to the States and the Federal Capital Territory; 35 percent to the Local Governments and 15 percent to the Federal Government. The proviso to Section 40 further provides for the principle of derivation of not less than 20 percent to be reflected in the share of States and Local Governments.

Postscript

The extent of influence exerted by the Federal Government over its constituent units varies from one system to another. In Nigeria, Germany, Australia, India, and South Africa, such influence is enormous. It is relatively weaker in countries like Canada, Switzerland and the United States.

Over the years, the most explosive issue in Nigeria's fiscal federalism involved the conflict over the appropriate formula for the inter-state sharing of centrally collected revenues. Over twenty principles have being employed in allocating revenue to the states since 1946. Among these principles, equality of states seems to be the most acceptable. In most cases,

opposition to this principle comes from the most populous states of the federation. Aside from this, the derivation principle has over the years generated a lot of controversies as to what percentage of the resources should go to the state from which a particular resource is explored. While the 1999 Constitution pegs the weight to be attached to derivation at a minmum of 13% of the resource derived from the states, resource rich states continually demand for higher percentage of such revenue.

Another salient factor in the debate over fiscal relations in the Nigerian federation is the manner in which states creation have shaped the content and character of central allocations to the states. After the creation of the twelve states from the four regions in 1967, the problem of how to allocate resources among the states arose. To address this challenge, the Federal Government simply divided the percentage allocated to the old northern region equally among the six states created from it. In any case, creation of new states usually brings about changes not just in the quantum of revenues accruable to the federating units but also the dynamics that influence the factors used in allocation of federally collected revenues.

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