Public policy and fiscal federalism: Its impact on political stability in Nigeria

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This paper examines fiscal federalism and its impact on political stability in Nigeria. Fiscal federalism as enunciated by economic analysis focuses on efficiency and welfare maximization in determining optimal authority. In practice, however, the construction of optimal jurisdictional authority is political and intervening exigencies have played major roles in shaping inter-governmental fiscal relations in Nigeria. In essence, the controversy is mainly caused by the whole process of revenue allocation that entails the reshuffling of the economic powers of the units of government. Evidently each unit or state advocates the use of the principle that would favour it most at the expense of other states. The paper reveals that the collection and sharing of revenue is over concentrated at the centre to the detriment of the state and local governments.

Key words: Political economy, revenue sharing, political development, resource allocation.

INTRODUCTION

Fiscal federalism is essentially about the allocation of government spending and resources to the various tiers of government. The issue of control of available resources in the Nigerian federation is an aspect of the persistent national question. Adedeji (1969: 282-269) demonstrated that fiscal federalism took its cue from constitutional and political development in the country.

In view of the historical commitment to federalism as a means of coexistence and unity, fiscal federalism has been an important and central feature of intergovernmental relations in Nigeria. The construction of a stable and acceptable intergovernmental fiscal relation has been the subject of many commissions and committees since 1914. Today, the issue still evokes virulent contestations among politicians and academics. The question here is to what extent can allocation of revenue between governments be used to promote political stability and even development? The answer to this question is not farfetched. Meanwhile, the main cause of conflict is that Nigeria depends on only one product, that is, crude oil which constitutes for 905 of her income. Prior to the prominence of oil in the international market, the country runs a federal structure but during the period of military rule from January 1966, the structure of governance was more unitary than federal in practice. Except for a civilian rule of four years (1979 to 1983), the country was ruled by military juntas between 1966 and May 1999. The civilian government which succeeds the military rule continued with the practices and styles of the military administration. Consequently, the centripetal forces that characterized military regimes are reinforced in the structure of revenue generation such that the bulk of the revenue is collected by the federal government. The disquisition would discuss the contentious issues and proffer amicable solution to the allocation of government spending and revenue raising authority between the various tiers of government in Nigeria. To this end, the underlying political forces at play during each period, the impact and consequences of these decisions on the optimal provision of public goods would be critically analysed.

To achieve the foregoing, this paper is structured as follows: conceptual perspectives and brief evolution of revenue raising and allocation in Nigeria respectively; a
look at political forces at play in the allocation, distribution and stabilization; the impact of the forces on political stability; conclusion and recommendations.

CONCEPTUAL FRAMEWORK

According to Anderson (2003), public policies in a modern complex society are indeed ubiquitous. They confer advantages and disadvantages, causes pleasure, irritation, and pain and collectively have important consequences for our well-being and happiness as well as constituting a significant portion of our environment.

Public policies are those developed by governmental bodies and officials. The special characteristics of public policies stem from their being formulated by what David Easton has called the authorities in a political system namely “elders, paramount chiefs, executives, legislators, judges, administrators, etc. According to him, the persons who engage in the daily affairs of a political system”, are “recognized by most members of the system as having responsibility for these matters”, and take actions that are “accepted as binding most of the time by most of the members so long as they act within the limits of their roles.

In a simplest term, public policies are those produced by government officials and agencies. According to the group theory of politics, public policy is a product of the group struggle. The theory rests on the contention that interaction and struggle among group is the central fact of political life. Latham therefore opines that it is the equilibrium reached in the group struggle at any given moment that represents a balance which the contending factions or groups constantly strive to weight in their favour as public policy will at any given time reflect the interest of dominant groups. Indeed, many groups have been generated by public policy.

Also to be noted is the views of theorists’ belonging to system theory. The system theory perceives public policy as the response of a political system to demand arising from its environment. Inputs into the system from the environment consist of demands and support, while the environment consist of any condition, or circumstance external to the boundaries of the political system. Support is rendered when groups and individuals obey and accept the decisions of the authoritative political system. Outputs of the political system are authoritative allocation of values and these allocations constitute public policy (Anderson, 2003: 83). The theory is useful in organizing enquiry into policy formulation and poses some questions on the political process such as how do environmental inputs affect the content of public policy and the nature of the political system? How is the political system able to convert demands into public policy and preserve overtime?

The institutional approach concentrated on describing the more formal and legal aspects of governmental institutions. The reason is that public policy is authoritatively determined, implemented and enforced by institutions like executive, legislative, court, etc. These governmental institutions give public policy legitimacy, universality and monopoly of coercion in the society. For example, only government can legitimately punish violators of its policies such as environmental laws of the country (Anderson, 2003: 84). The fact is that, as long as the institutions of government emphasize the nature and extent of public policy, it also response to the environmental problems.

By public policy, Dibie (2000: 220), means the actions of groups in authority to implement their decision. These policies are attempts by the relevant actors in a political system to come with and to transform their environment by deliberate measures, which may involve the commitment of physical or symbolic resources.

Public policies are the outcome of decisions taken by government, at various levels, on serious and sensitive issues of general interest. According to Onyeoziri (2002: 5) public policies are the main instruments with which governments or state elite seek to respond to the demands of their publics (Onyeoziri, 2002).

According to Sambo (2005), as authorities seek to allocate values, they make judgmental decisions which are favourable to some and unfavourable to others. The cumulative decisions of these authorities are what we generally refer to as public policies. In other words, public policy is partly “the output of the political process of value allocation Sambo (2005).

As a follow up, Yagboyaju (2009: 8) explains that all policies involve decision-making by public officials who authorize or give direction and content of public policy actions. Simply put, public policy can be indicated by the framework of governmental formation and deliberation, the intentions of political actors, the formal statements of public activities, or the consequences’ of the activities for society (Maduabum, 2003: 3). Generally, public policy is seen as a decision making process.

EVOLUTION OF REVENUE RAISING AND ALLOCATION IN NIGERIA

According to the (Hick-Phillipson report, 1951: 68), the controversy over revenue allocation dates back to the origin of Nigeria. From 1901 to 1914, Northern Nigeria was dependent on outside assistance in order to balance her budgets. Each year it received a large grant from the imperial government and contributions from the Southern Nigeria in lieu of customs revenue. Amalgamation therefore became a clever ploy by the colonial government to reduce the dependence of Northern Nigeria on the British taxpayers. This act provoked bitter controversy at the time arousing resentment of educated
elites and some British administrators (quoted in Osadolor 1998: 35). This virulent and contentious issue has persisted till independent and post independent era. Between 1948 till date, nine commissions, six military decrees, one Act of the legislature and two Supreme Court judgments have been resorted to in defining and modifying fiscal interrelationship among the component parts of the federation (Ozon-Eso, 2005: 4). The inconclusive discussion of the issue at the 2005 Political Reform Conference is the latest attempt to define or redefine or interpret the framework for revenue sharing both vertically between centre-state and horizontally amongst states of the federation.

Pre-independent era

The 1946 Richard Constitution recognized three regions namely, North, East and West which necessitated the distribution of financial and administrative powers between the various tiers of government. The colonial authorities appointed Sir Sydney Phillipson to investigate the apportionment of revenue to the various tiers of government. The Sir Sydney Phillipson Commission (1948) recommended the gradual evolution to a revenue sharing system based mainly on the derivation principles. Phillipson's derivation was based on his belief that this would inculcate in each region a sense of 'financial responsibility' by 'cutting their coat according to their cloth'. But due to unreliability of data from which the figures were arrive at; critics argued that the Phillipson recommendation was plagued by irreconcilable statistical problems, intensified interregional controversies about the real volume of interregional trade.

When Sir John Macpherson Constitution of 1951 was established, it led to the appointment of a committee consisting of Dr. John Hicks, Mr. D.A. Skelton and Sir Sydney Phillipson (1952) to review revenue sharing amongst the tiers of government. Their report criticized the unlimited application of the prevailing derivation principles arguing that it would be more appropriate in a loss confederation than in a federal system. They recommended the principle of 'need' and 'national interest'. They emphasize creating a common sense of national identity in the people, and recommended the payment a once off payment of Two million pounds to the northern region. The Hicks-Phillipson report was received with mixed feelings as the West clamored for a reversion to the derivation regime while the East took an opposite direction. This culminated in the replacement of the Macpherson Constitution and coincided with the birth of Sir Oliver Littleton Constitution.

The Littleton Constitution granted regions the powers to legislate on matters of the concurrent legislative list so long as this does not conflict with federal legislation. These changes impacted on revenue allocation which necessitated a review of the fiscal relationship between the tiers of government. The Sir Louise chick Commission (1954) was set up to review the then prevailing fiscal arrangement. The Chick Commission recommended that less emphasis should be placed on the principles of 'need' and 'national interest' as determinant in the revenue allocation. It advocated for fiscal autonomy, derivation and for the first time introduced the use of central government grants as a stabilization mechanism (Tariba, 1966). The central government was to keep 50% of the general import duty while the regions were entitled to 50% on the basis of derivation. 100% import duty on motor spirit, mining rent and royalty were retained by the regions, while export duty on hides and skins were shared on a 50 to 50% basis between the federal and regional governments (Chick Report, 1953: 25 – 27). Consequent upon the 1957/1958 Constitutional Conferences, the revenue sharing arrangement was again altered in 1958 when the colonial government appointed Sir Jeremy Raisman and Prof. Ronald Tree to review the fiscal structure.

The Sir Raisman Committee (1959) recommended that produce sales tax and sale tax on motor vehicle fuel should be retained by the regions. It also established a distributable pool account (DPA) for the purpose of sharing collectable revenue. Essentially, it abolished the practice of returning mining rent and royalty to the regions but should be channeled into the distributable pool account for sharing with regions of origin getting 50%, Federal government 20% and other regions 30%. The Raisman Commission significantly reduced the use of derivation as a principle for sharing the DPA and introduced continuity, minimum responsibility, population and balanced development of the federation (Raisman Report, 1958: 31 – 32). It also recommended the unification of some aspect of the Nigerian tax system which culminated in the reduction of revenue for the regions and marked a fundamental shift from revenue generation to revenue allocation quoted in Uche and Uche (2004: 20).

Post independent era

In accordance with sections 164 of the Republican Constitution of 1963, the federal government appointed Mr. K.J. Binns as Fiscal Commissioner (1964) and mandated him to review the appropriateness of the existing allocation formula amongst the tiers of governments. The main recommendation of this commission was that when excise duty is imposed on locally produced motor spirit and diesel oil, the central government shall pay to the regions, proceeds of the duty based on the consumption in the various regions (Binns Report, 1964: 35-37). This report constitutes the basis for revenue allocation till the military coup of January
1966 that led to the emergence of General Aguiyi Ironsi to power.

General Ironsi’s Decree No. 33 and 34 of May 1966 abolished the federal system and established a unitary system of government transferring items in the concurrent and residual list to the federal government. The counter coup which brought General Gowon to power created twelve states federal structure in a manner that impoverished the eastern region. In the wake of an imminent war, Gowon promulgated the (financial provision) Decree No. 15 of 1967. This decree divided the share from the DPA amongst the six states created in the North, 3 states each created in the East and West respectively as well as marked the beginning of the use of population as revenue sharing principle in Nigeria.

In reaction to the existing controversy in the allocation formula, Dina (1969) was appointed to review and suggest changes to the revenue raising and sharing formula. The Dina Commission expanded both the role and revenue base of the Federal Government to the detriment of the States Governments. It renamed DPA, State Joint Account (SJA), established Special Grant Account (SGA) and introduced onshore off/shore dichotomy. Offshore revenue was shared thus: Federal Government, 60% SAJ, 30% and SGA, 10%. While onshore revenue was signed on the following lines: Federal Government, 15%, States of derivation, 10%, SJA 70%, and SGA 5%. Excise duty revenue was to be shared as follows: Federal Government 60%, SJA, 30% and SGA 10%. Import duty was allocated on a 50% basis between the Federal Government and the SJA. Finally, export duty revenue was shared as follows: Federal Government, 15%, state of derivation 10%, SJA 70% and SGA 5% (Dina Committee Report, 1969: 103 – 107). The committee report obviously favoured the Federal Government and as a result was rejected by the states. But the Federal Government went ahead and implemented the committee recommendations through Decree No. 9 of 1971 which transferred rent and royalties of offshore petroleum mines from states to the Federal Government.

Decree No. 6 of 1975 empowered the Federal Military Government to deposit in the DPA 80% of mining rent and royalty, 35% of import duty, 100% of duties on motor spirit, tobacco, hides and skins and 50% of excise duties. The decree also mandated that the DPA should be shared on the basis of 50% equality of states and the remaining 50% on population. When Murtala Mohammed overthrew General Gowon, he immediately created more states from 12 to 19 through Decree No. 12 of 1975. This weakened the powers of the States relative to the Federal Government.

In their attempt to prepare the country towards the Second Republic, the Muritala/Obasanjo administration appointed Prof. Aboyade’s technical Committee on revenue allocation to examine the existing revenue sharing arrangement. The committee recommended that all revenue should be paid into the Federation Account and for the first time made Local Government part of the vertical levels in the allocation of collectable revenue. The federation account was to be shared thus: Federal Government 60%, State Government 30% and local Government 10%. The Federal Government was required to set aside 3% of its revenue for the mineral producing areas for emergency and disaster management. It recommended the use of the following principles: equity of access to development opportunities, national minimum standards for national integration, absorptive capacity, independent revenue and tax effort and fiscal efficiency (Quoted in Adesina, 1998: 234). Dr. Pius Okigbo criticized the vertical distribution of revenue amongst the various tiers of government arguing that the Aboyade report favoured the Federal Government. Because of this criticism the Constituent Assembly rejected the Aboyade recommendation and the new government appointed Dr. Pius Okigbo to review the allocation formula with particular emphasis on national interest, derivation, population, even development, equitable distribution and equity of states.

The Okigbo’s Committee recommended that the Federal Government shall retain 53%, State Governments 30%, Local Governments 10%, development of Federal Capital Territory 2.5%, special problems of the mineral producing areas 2%, ecological problems 1% and revenue equalization fund 1.5% (Okigbo Report, 1980 Vol. 1: 86). It was finally accepted that the Federal Government should retain 58.5%, State Government 31.5% and Local Government 10%. The Okigbo’s Committee was also criticized for giving the central government so much to the detriment of the states.

The afore-mentioned sharing arrangement was altered by the Federation Account Act Number 1 of 1982. Essentially, this Act increased the share of the states allocation from 31.5 to 35%, classified FCT as a state, transferred ecological fund to the central government and reduced the share to the mineral producing areas from 3 to 1.5%. Horizontal of revenue was anchored on the following criteria: minimum responsibility of government 40%, population 40%; social development effort 15% and internal revenue effort 5% (Allocation of Revenue Act, 1982: sec. 2). This was effective till December 1983 when the General Buhari overthrew the Shagari’s government.

Decree Number 36 of 1984 marginally altered the revenue sharing arrangement thus: Federal Government 55%, State Governments 32.5% and local Government 10%. While horizontal allocation remains the same during this period. This was in place till the General Babangida administration established the National Revenue Mobilization Allocation and Fiscal Commission (NRMAFC) in 1989.
The NRMAFC prescribed that the horizontal allocation of revenue amongst states shall be along the following lines, equality of states 40%, population 30%, internal revenue effort 20% and social development factor 10%. This revenue sharing arrangement continued into the General Abacha administration when he convened the so-called Constitutional Conference in 1994. The virulent contention in this conference generated heated political revelry and controversy between the oil producing states and the central government that culminated in the 13% derivation recommendation. The 13% derivation for oil producing states was not implemented till it was promulgated into the May 1999 Constitution of the Federal Republic of Nigeria (Taiwo, 1999).

Despite this provision in the 1999 Constitution, the Obasanjo administration refused to implement it but rather appointed a Committee to review the 1999 Constitution. The Obasanjo review committee recommended that the 13% derivation should be increased but the Obasanjo administration refused and rather seek the Supreme Court intervention to definition of a seaward boundary of a littoral state. This generated intense controversy that made the Obasanjo government to grant concession of 200 meter water depth isobaths into the high (Thisday, 17th February, 2003).

In sum, between 1954 and 1958, derivation took pre-eminence in horizontal revenue allocation. But between 1964 and 1967, derivation gradually diminished while the principle of national interest which favoured the three power blocks, and the northern power block most, in the face of the reality of oil became emphasized. Between 1968 and 1976, the principle of equality of states and population were given equal weight of 50% in the allocation of revenue amongst states – none to derivation. Between 1977 and 1981, equal access to development opportunities 25%, national minimum standards 22%, absorptive capacity 20%, independent revenue effort 18% and fiscal efficiency 15%. Between 1982 and 1998, equality of states has a weight of 40%, population 30%, independent revenue effort 10%, landmass and terrine 10% and social development 10% and derivation is still below the 13% minimum as enshrined in the 1999 constitution (Jimoh, 2003: 13).

Underlying political current in fiscal federalism in Nigeria

As has been dramatized by Osadolor (1998: 35) and Nwokedi (2001: 20) that:

The decision … to create a unified Nigeria on 1 January 1914 did not result from the pressure of local political groups; it derives from consideration of administrative convenience as interpreted by a colonial power. Lugard considered it unnecessary to carve up a territory undivided by natural boundaries, more so since one portion (the South) was wealthy enough to commit to even "unimportant" programmes while the other portion (the North) could not balance its budget necessitating the British tax payer bring called upon to bear the larger share of the cost of its administration. This partly explains the amalgamation, an act which provoked bitter controversy at the time, arousing the resentment of educated elites and some of the British administrators. It nevertheless, saddled the country with an issue – the relationship between the North and South that has dominated politics to this day.

From the foregoing the paper notes that political imperatives more than anything else account for the present day Nigeria. This has been reinforced by fiscal arrangement that had existed between the tiers of government in Nigeria. Thus, from 1914 to 1959 the principle of derivation which paid the Hausa-Fulani Northern power bloc the most, fair to the Yoruba of the Western power bloc and at least did not seriously injure the interest of Igbo of the Eastern power bloc, derivation was the dominant basis of revenue allocation among regions and was then good for national interest and unity. However, from 1959, that oil and associated government revenue came from none of these three power blocs, the derivation principle that had been good in the past suddenly became incapable of promoting national interest and unity. Consequently, derivation was jettisoned even completely in some years. It seems clear that if oil had came from any of the three dominant power blocs; it would probably have been more difficult to discontinue the application of the derivation principle (Jimoh, 2003: 12; Akinyemi, 2001).

The creation of additional states and local government areas in Nigeria are clear political maneuver to position particular geo-political zones to favour financially from the fiscal arrangement. For example, during the creation of twelve states by the General Gowon administration, the authorities skillfully carve out Rivers and South Eastern states from the Eastern region even though political tension was rife during this period. The continuous creation of additional states and local government bringing the numbers to 36 and 774 respectively became avenue for "easy access to federal resources". Fundamentally, due to the lack of independent source of revenue for these units as dependent on federal location has adversely affected their autonomy and hindered their capacity to carry out independent projects and function as autonomous center of power.

The introduction of the Universal Primary Education (UPE) in 1976, transferring primary education from states to the federal government is an example of the political under currants in Nigeria’s fiscal federalism. Similarly, university education was equally transferred to the Federal Government during this period. The federal government was by this transfer being projected as the
main engine of socio-economic development as against states and local government levels.

It must be emphasized here that over the years especially during the rule of the Babangida and Abacha administrations, various dedicated accounts that have first charges to federal collectible revenue, were created. Example of such accounts include: AFEM surplus Account, Petroleum Trust Fund, National Priority Projects Fund, External Service Funds, NNPC Joint Venture Payment Account, Educational Tax Funds, among others. In 1992, such dedicated account constituted about 31% of total federally collected revenues, 36% in 1993, 41% in 1994 and 43% in 1996 The net effect is that what is available for sharing amongst the tiers of government is reduced (Jimoh, 2004: 10).

Another example is when value added tax (VAT) was introduced in 1994 to replace the sale taxes that states previously had 100% right to, the federal government was initially designed to have 20% of its proceeds but as it became obvious that this would be a major source of revenue, the sharing formula was changed in deft move in favour of the federal government. In 1995 alone, the VAT allocation formula was tinkered with twice; between January and March 1995, the allocation formula was federal government 50%, states and local government 25% respectively. It took pressure from states, for federal share to be revised downward in April 1995 such that the allocation formula became federal government 40% state government 35% and local government 25%. The overall effect is to over concentrate rights to revenues at the centre. The foregoing examples clearly demonstrate the role of political undercurrent that significantly shaped the fiscal relationship between the various tiers of government in Nigeria (Ugoh, 2011).

The impact of fiscal federalism on political stability in Nigeria

According to Long (1991: 192) federalism is an institutional solution to the destructive tendencies of intra societal ethnic pluralism. Although Long may have emphasized the factor of ethnic pluralism, the relevance of the federal system encapsulates all forms of societal diversities be it ethnic, cultural, linguistic or religion. Moreover, factors engendering stability and/or instability in societies include several cleavage issues that often arise from time to time (Oates, 1972). Indeed, if we conceive of stability or better still, political stability as a condition of steadiness and firmness of political institutions and processes within the political system as well as absence of threat to an existing pattern of authority and behaviour, then it could be reasoned that political stability especially in plural society is a function of several societal factors within the entity (Muhammad, 2007).

These include the extent of polarization and opposing tendencies within the entity and the extent of adaptability of the governmental system to management of these divisions. Muhammad (2007: 189) insisted that, while a situation of absolute stability may not be attainable in any society, relative stability of all organs as well as general acquiescence to rules is quite essential for the state to achieve its desired end. Thus, for plural societies defined by divergent interests especially on territorial basis, the adoption of political arrangements and institutions that allow for cooperation and harmonious relations between and among groups becomes an imperative for relative political stability to exist (Cremer et al., 1994).

The afore-mentioned according to Muhammad informs why various conceptions of federalism have revolved around management of actual and potential conflicts within a nation state. It must equally be said that while federalism may not be the cause to all societal problems arising from ethnic pluralism and cultural diversity which may had imagined it to be (Elaigwu, 2000: 35; Watts 2000: 3), it nonetheless attempted to manage them by accommodating the various diversities that are prone to engendering instability. It is able to achieve this by permitting the existence of different and, to a large extent, autonomous locus of power and guaranteeing the right of self determination of various groups. But even the right of self determination itself, especially in a federal context, has been noted by scholars as one of double application (Ramphal, 1979: 21).

Ramphal observed that, in relation to the federal system, secession is the claimed concomitants of self determination, which can therefore help to destroy federalism just as it serve to build it. The idea here is that, self determination goes hand in hand with nationalism. Self determination of sub-national units may therefore result in ultra nationalism of these units which may eventually lead to secession attempt by them as was the case in 1967 when the eastern region tried to secede from the rest of Nigeria. The current restiveness of Nigeria’s ethnic minorities of the Niger Delta also shows a gradual drift towards this end. However, although the idea of self determination which is central to the practice of federalism may tend to be problematic at times, yet, there is currently no viable political alternative to federalism for territorially fragmented and culturally heterogeneous societies (Muhammad, 2007: 189). Above all, the adaptability of the federal system to engendering political stability in the state depends largely on the operating context of the system as well as attitudes and orientation of political actors within the political system.

Muhammad (2007: 189) asserted that like all federal systems, Nigeria’s federalism since its adoption in 1954 has been operating in both fiscal and political contexts. The fiscal context according to him consists of the mode of expropriation and distribution of resources while the political context relates to putting in place appropriate
structures that would facilitate the self realization of component units. He opines that the operation of federalism in both contexts must be designed in such a way as to avoid marked inequality among the component units in power and resource matrix (Jinadu, 1979; Jinadu, 1994). Indeed, it has been noted that financial subordination of units or marked inequality between them in terms of wealth, population and land mass constitute potent destabilizing factors in federations and may make an end of federalism (Wheare, 1963; Awa, 1976).

**Fiscal context of federalism**

In the fiscal context, there is no doubt that profound conflict exist among the component units of the Nigerian federation. At inception of the system, there was a large devolution of powers to the regions. Equally, each region enjoys considerable autonomy over its internal affairs in addition to having a regional police force and civil service. In terms of resource distribution, the principle of derivation occupied a significant place in the distribution formula. This followed recommendations of the Louis Chick Commission of 1953 which was set up to 'assess the effect, on the public expenditure of Nigeria as a whole, of the reallocation of functions between the centre and the regions' (quoted in Elaigwu, 2005: 252).

Thus, derivation remained a major emphasis in federal revenue allocation between 1954 and 1966 when the military took over headship of the country, albeit some other commissions were set up whose recommendations led to some minor modifications in the revenue sharing arrangement. However, due to a number of factors that include the military's adventure into Nigerian politics, the need to arrest the ever burgeoning powers of the regions and its concomitant weakness of the centre with the attendant consequence of being unable to give the country a sense of direction and above all, the seeming gradual disintegration of the federal structure, there was a gradual shift to some other forms of consideration in revenue allocation as a strategy to arrest the situation. Beginning from 1966, therefore, the principle of derivation was greatly downplayed while other principles also became prominent. Other basis of allocation include, population size, need and, national interest (Musgrave and Musgrave, 1989). Ironically, this period coincided with period of oil boom and a massive decline in the value of cocoa and other export produce from other regions at the international market. In other words, there was a twist of fortune and faith as the south eastern region, with the oil boom, gradually became the life wire of Nigeria's revenue generation while the northern and western regions, the major producers of groundnut and cocoa respectively, receded. Thus, while the northern and western regions were indifferent to the new revenue sharing arrangement, the eastern region wanted federal allocations to the regions to continue fully on the basis of derivation.

Ever since this period, the principle of derivation in the sharing formula has continued to suffer decline under Nigeria's fiscal practice while 'attempt to arrive at a national consensus on the revenue sharing formula in spite of several revenue commissions has hardly yielded any acceptable outcome' (Zabadi and Gambo, 2000: 75). Ofeimun (2005) poignantly captured the fluctuating fortune of the derivation principle when he observed that: From 100% in 1946, the Philipson Commission recommended 50% for derivation in 1951; Hicks Philipson recommended 50, 100% was actually disbursed in 1953 when the Western Region pushed for it; in 1960, it was 50%; by 1970, the regime of General Yakubu Gowon... reduced derivation share to 45% ... it 1975, derivation fell to 20%. The Muritala/Obasanjo administration fixed it at 25 ... Shehu Shagari reduced it to 5% in 1981. Under Buhari, it crashed to 1.5%. General Ibrahim Babangida raised it to 3% ... it took the rise of Saro Wiwa phenomenon for consideration to be given to a 13% rise on the principle of derivation as proposed in the 1995 and now the 1999 constitution.

Revenue collection appears to be over concentrated in the hands of the federal government and vertical arrangement appears to have left proportionately more than needed at the centre and too little for states and local government. Similarly, arrangements for horizontal allocation of revenue over the years ensures that the interest of the three dominant ethnic power blocks are not injured (Jimoh, 2004: 22) Jimoh observed that one of the major outcomes of such a process is that, when crude oil production became a major source of government revenue and is derived from an area outside the three dominant ethnic groups, sharing formula that would protect the dominant interest groups could not allocate sufficient revenues to the minority oil producing areas to redress the negative externalities associated with oil exploration and exploitation.

These negative externality has resulted in the destruction of the eco-system within the Niger Delta area. Experts and exponents alike have estimated that:

More than 1.07 million barrels (45 million US gallons) oil were spilled in Nigeria from 1960 to 1997. Nigeria's largest spill was an offshore well blow out in January 1980 when at least 200,000 barrels of oil (8.4 million US gallons), according to industry source, spewed into the Atlantic Ocean from Texaco facility and destroyed 340 heaters of mangrove. Directorate of Petroleum Resources estimates were more than 400,000 barrels (16.8 million US gallons), were spilled in this incident.

To ameliorate this problem, in October 2009, the Nigerian government succeeded in negotiating an amnesty deal with various insurgent youth groups in the Niger Delta. The youths, or militants had taken up arms to protest decades of neglect and exploitation of the oil-rich region. The twin issues of fiscal federalism and the
amnesty programme are the most urgent political challenges that confront the government of Nigeria and the people of the Niger Delta. Our nation must deal with both challenges simultaneously in order to ensure sustainable peace for the development of the long-neglected region. It should be noted that the advocacy for fiscal federalism and equity pre-dates the upsurge of revolts of angry youths in the region. There is a consensus that the right application of the principle of fiscal federalism will resolve one of the fundamental causes or justification for the uprising.

**Structure/political context of federalism**

In its structural and political context, Nigeria's federalism may be likened to a biological cell capable of dividing and reproducing itself (Dent, 1995). This is because, it has continued to witness continuous splitting of units. In 1954, it began as a federation of three regions but by 1964, it became four with the creation of the mid western region from the then western region. By 1967, the federal structure became subdivided into 12 states while by 1976; it was further split into 19 states. By 1989, it became a federation of 21 states, increasing to 30 by 1991 and by 1996 it had subdivided to become a federation of 36 states. In addition, the creation of more states has always been accompanied by the creation of additional Local Government areas. Thus, from 301 in 1976, the country currently boasts of about 774 Local Government Area Councils. Implicit in the aforementioned description is that Nigeria's federal structure is predicated on a three-tier administrative structure- the federal, state and local governments. While it is not a misnomer to have, in a federation, more than two tiers of government in order to cope with the extent of diversities, the continued structural division, however, have not produced a satisfactory outcome for the component units. This is evidently so because every attempt at states and local government creation is usually followed by increase agitations for more.

It is important to also stress that, the creation of states and local government is usually seen as a legitimizing strategy of the military. But beyond this, it is for most Nigerians, a progression towards achievement of self determination (Jinadu, 2003). This is because, even though military governments were the ones reputed for creating more states, except for the creation of the mid western region in 1964 by the Tafawa Balewa administration, states creation exercise is always preceded by agitations for it by the citizens themselves. Moreover, even under civilian administrations, there were usually agitations for states but perhaps the rudiments of constitutional requirements for creating more states often made it frustrating to embark upon. For instance, the Shehu Shagari administration (1979 to 1983) had received over 80 requests for the creation of additional states before it was overthrown in 1983 (Muhammad, 2007: 189). States are important variables in federations and its utility in engendering development and political stability cannot be wished away. This as noted by scholars include opening up new areas for development, breaking the hegemony of major ethnic groups and diffusing ethnic tension among others (Diamond, 1987; Suberu, 1996; Nwosu, 1998; Onyeoziri, 2002). However, at times, the extent to which state creation exercise satisfy these needs tend to be momentary. This is because Nigeria’s experience has shown that the creation of new states from old ones automatically results in the emergence of new majorities and new minorities in the new state with the attendant claims of marginalization by the new minorities.

Apart from this, there was the tendency for people who hitherto belonged to the same state to now see themselves as former brothers and rival within the federation. It was in order to ‘reflect the nuances of the federation’ (Nowsu, 1998: 34), and give further expression to its federalism, that the federal character principle was adopted in the 1979 Nigerian Constitution as a directive principle of state policy. Accordingly, therefore, section 14(3) of the Constitution provided that: The composition of the government of the Federation or any of its agencies and the conduct of its affairs shall be carried out in such manner as to reflect the federal character of Nigeria and the need to promote national unity and command national loyalty thereby ensuring that there shall be no predominance of persons from a few state or from a few ethnic or sectional groups in that government or any of its agencies.

Essentially, Section 14 sub-section 4 of the constitution also provided that: the composition of the Government of a State, a Local Government Council, or any of the agencies of such Government or Council, and the conduct of the affairs of the Government or council or such agencies shall be carried out in such a manner as to recognize the diversity of the peoples within its area of authority and the need to promote a sense of belonging and loyalty among all the people of the Federation (Nwabueze, 1993).

These provisions were replicated in the same sections of the 1999 Constitution of Nigeria. Going by the wordings of the constitution, the expectation on the federal character principle was that it would pave way for a federal government that would be all-inclusive of all segments of the federation, and thereby assuring a stable federal polity. However, lofty as the federal character provision is, there was no executive agency charged with the responsibility of implementing it until July 2002 when the Federal Character Commission (FCC) (2005) was inaugurated. Thus, its implementation before this period by various government ministries and agencies was more or less haphazard with the consequence of a declining confidence of citizens in the principle as a means of achieving relative equity in the federation. Even till date
and with the establishment of a commission to oversee its application, there seem not to be much hope in the whole process. For further insightful commentaries on the federal character principle (Ekeh and Osaghae 1989; Ojo, 1995; Ojo, 1998; Onyeoziri, 2002).

Political instability is a condition in the political system in which the institutionalized patterns of authority breakdown and the expected compliance to political authority is replaced by violence with the intent of changing the personnel, policies or sovereignty through injury to persons or property (quoted in, Elaigwu, 2000: 36), there is no doubt that the practice of federalism in Nigeria has been punctured by political instability manifesting in the various and actual threat to its existence. These include an agonizing 30 month civil war between 1967 and 1970; a number of ethno-regional induced coups such as January and July 1966 coups as well as the failed coup attempt by Major Gideon Okar in 1990; communal clashes as between Ife and Modakeke in Osun State, Umuleri and Aguleri in Anambra State and, Ijaw and Itajae communities in Delta State; deafening agitations for resource control especially in the minority Niger Delta; increasing wave of ethnic nationalism and ethnic militia groups (Oodua People’s Congress, Egbesu Boys, Movement for the Actualization of Sovereign State of Biafra, Movement for the Emancipation of Niger Delta and a host of others); the Sharia law debacle and; increasing struggle for control of the centre among others (Gofwen, 2004). Yet, this trend according to Muhammad (2007: 196) has shown no sign of abating thereby casting a shadow of doubt over the adaptive capability of federalism in guaranteeing political stability in Nigeria.

The foregoing notwithstanding, the role of astute political leadership is necessary to pull the nation towards greatness and maintain a dynamic balance between centripetal and centrifugal forces. It is the leaders that give direction to and as well engender commitment on the part of the people towards achieving national greatness. Muhammad (2007: 203) maintained that owing to a combination of factors, the emergence of a true national leadership in Nigeria has been difficult. Virtually all its leaders since independence have acted in one way or the other that portray them as advancing ethnic or sectional interest. Even the citizens in most cases perceive them as and their actions through the lens of ethnicity or other sectional affiliations. This tendency is further reinforced by the attitudes of Nigeria’s political class who in their intra class struggle for political power to consolidate on their primitive accumulation of wealth developed a penchant for aggravating existing cleavages by interpreting politics in terms of survival of ethnic or regional entities (Human Rights Watch, 2006). Indeed, the series of leadership crises experienced since independence attest to this perspective.

For a federation to be able to resist failure according to Muhammad (2007: 204), the leaders and their followers must feel federal – they must be moved to think of themselves as people with one common, self-interest – capable, where necessary, overriding most other considerations of small interests … ‘the good’ for any must be consciously subordinated to or compatible with ‘the good for all’. This then is tantamount to an ideological commitment not to federation only as a means … but … as an end, as good for its own sake, for the sake of answering the summons of history.

Conclusion

The foregoing analysis has revealed that stability or instability in the society is a function of the extent of societal polarization and how they are managed. Nigeria’s federal structure since inception has witnessed several fiscal and structural reformations in line with new realities as they emerge. The creation of thirty-six (36) states structure without fiscal autonomy and integrity that is a sine-qua-non of true federalism has engendered different ethnic militias in the country. Ardent scholars of federalism have requested to re-group existing states into six zones. Professor Onigu Otitie in a scholarly 1995 study for instance, advocated six zones namely: North-West, South-East, North-Central (middle belt), South-West, South-East, and South-South (Delta, Edo and River States) (Otitie, 1995: 22).

Conversely, other scholars strongly asserted that any new zoning system-two, six or more number would seriously impair existing intra-state and inter-state relations within the federation. Adherent of this school maintained that none of the states of the federation is completely “homogenous” (that is, without fierce subgroup difference as often revealed, in some states, during asset-sharing exercises, the delineation of local government areas, or public-sector employment activities) (Tamuno quoted in Amuwo et al., 1998: 21).

What can be gleaned from this paper is that Nigeria is a country of excruciating paradoxes. Here is a society that has been magnanimously blessed by nature with almost inexhaustible pool of resources (both human and material); yet has among its population some of the poorest and most of its population is most impoverished of the earth’s inhabitants. The paper further reveals that military centralization occasioned by the lop-sided allocation of powers and resources between the center and the states is directly responsible for this situation of rich country but poor people.

RECOMMENDATIONS

The following solutions are recommended to ameliorate and create a sustained, enduring balance between the centripetal and centrifugal forces that would engender
realistic fiscal federalism and ensure political stability in Nigeria.

1) For lasting solution to the country’s socio-political crises and correcting the distortion of federalism, there is need to involve the restructuring of the system in order to make the centre less powerful and politically less attractive.

2) The various component units should be organized along geo-cultural consanguinity and historical experience. For instance, the Yoruba of South-West will constitute a state. The Ogoni will constitute a state, etc., therefore states should not be created. They evolve, based on historical experience. Ethnic nationalities that are too small to constitute a state on their own could be merged with neighbouring ethnic nationalities of their choice. This will reduce the number of states and at the same time end the endless agitation for the creation of new states.

3) Component states should be independent of the federal government as possible; states should be responsible for providing almost every social service – from education to housing, and from health to roads. The federal government should concentrate on areas of common concern such as minting of currency, external relations, defense, and regulation of international trade.

4) The control of onshore resources of whatever kind should be that of the states. Each state taps its resources and pays certain percentage of revenue accruing from the resources to the federal government. This will make each state look inwards for its own resources, rather than rely on the federal government.

5) Each state government will have its own constitution, flag, coat of arms, police and its supreme court. No one will bicker over the adoption of Sharia legal system in Zamfara and Kebbi States, or the adoption of Oshun legal system in Ekiti State. In the same vein, Kano State will do what it wants with its groundnut pyramids; Benue will do what it wishes with its food basket; Jos will thrive well with its solid minerals without having to rely on oil from Akwa Ibom State, etc.

6) The current constitution, which is a military foisted constitution, falls short of a truly Federal Constitution and does not guarantee true federalism. The so-called national constitutional conference or reform dialogue may not solve the problems especially with the antecedent of the people at the conference. We just cannot keep pretending that all is well with us when, in fact, all trace of failure abound in almost every aspect of our national life. Nor can we simply wish these distortions away. The result of deliberate political manipulation and intrigue requires deliberate political, economic and structural reengineering to remove the distortions and prepare the ground for a new.

7) Public policy coordination and monitoring through intergovernmental mechanism and meetings should be economic and socio-political dawn for the country.

8) Transparency, accountability and probity in governance should be enshrined. A truly federal structure will undoubtedly give every Nigerian and ethnic nationality a sense of belonging, reduce political tension, end the marginalization of some geo-political zones, ensure equity and fairness in the polity, checkmate coup making, and minimize political violence that results from election rigging and prepare the ground for long-lasting unity and peace of the country.

REFERENCES


