

STATE GOVERNORS AND REVENUE ALLOCATION FORMULA IN NIGERIA: A CASE OF THE FOURTH REPUBLIC

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Abstract

As the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) prepares to review the country intergovernmental fiscal relations, one begins to wonder if there is, indeed any justification for increased revenue to the states. And on account of very poor performance, justification for the existence of most local councils is a lot more difficult than finding out how much the federal government actually does for the populace. Under the current revenue sharing formula, the federal government takes 52.68 percent, the states 26.72 percent and the local governments, 20.60 percent with 13 percent derivation revenue going to the oil producing states. This paper seeks to examine the pros and cons of a new revenue formula, the desperation for increased revenue from the Governors. It goes on to show with empirical evidences the states' desperation in their penchant for borrowing from local banks, foreign loans, sale of bond and by flexing their strong political muscles to cause to depletion of the Excess Revenue Account. The paper concludes by positing that the litany of poor socio economic amenities, like health care, educational facilities and potable water, months of unpaid salaries are common features hidden by boastful talk and deceptive propaganda should be used as indices for denying the states any additional revenue.

Keywords: Inter-governmental Relations, Fiscal federalism, Revenue Allocation, Derivation, Vertical and Horizontal relationships

Introduction

One of the most contentious issues that the 2014 Conference grappled with was fiscal federalism – the assignment of revenue collection/taxing and spending powers between and among the federal and state governments. This includes include the revenue allocation formula and the so-called “resource control” question. Revenue allocation in Nigeria, a central theme in government has a chequered historical antecedent. Many Commissions/Committees have been set-up at different times in the Nigeria national history and were saddled with the responsibility of examining various fiscal issues and recommend the best principles and

formulas in sharing national revenues to meet-up the challenges of the time. Some of these Commissions/Committees include; the Phillipson Commission (1946), the Hicks-Phillipson Commission (1951), The Chicks Commission (1968, The Raisman Commission (1958), The Binns Commission (1964), The Dina Interim Committee (1968), the Aboyade Technical Committee (1977), the Okigbo Commission (1980), the Revenue Mobilization Allocation and Fiscal Commission (1989) and various military decrees and memos (revisions) particularly 1970, 1971, 1992 and 2004. It is worthy of note that all the Commissions/Committees listed above were Ad-hoc in nature except for the Revenue Mobilization Allocation and Fiscal Commission which was established as a legal and permanent entity to deal with fiscal matters on a more regular basis as the need arises.

According to R. A. Musgrave and P.B. Musgrave, “Whereas a unitary government need not have its taxing and spending powers specified in the constitution, a federation by necessity must have them so specified. Indeed, fiscal arrangements – assignment of taxing and spending powers – are at the very core of the contract between the constituent governments which combine to form the federation. While the central government necessarily must fiscal powers, the comprising units retain a sovereign right to conduct fiscal transactions of their own”.

Ideally, under a federation, each tier of government (federal, provincial/state, and district/local) should have assigned taxing powers to raise enough revenue to conduct its operations – administration and provision of public services – and no government should rely on another government for a significant portion of its revenue. The problem with Nigeria’s federalism is that most states governments and local governments rely heavily on revenue allocated from the federation account, i.e. revenue collected by the federal government, FG on behalf of the federation.

This paper seeks to examine the roles of governors in Nigeria’s fiscal federalism since 1999. The first section of the paper explores the concept of inter-governmental fiscal relations or fiscal federalism. The second section will examine the theoretical framework of analysis upon which fiscal federalism rests. The third section discusses the pros and cons of fiscal federalism as put forward by the actors involved in the upward or downward review of existing revenue allocation formula in Nigeria. The fourth section recommends the way forward and concludes the paper.

Clarification of Concepts – Intergovernmental Relations and Fiscal Federalism

Most countries have several tiers of government. In addition to the national level, many countries have two sub-national levels; i.e. provincial (or regional) and local governments. Furthermore, local authorities are often divided into sub-levels such as ward and village councils. In many countries the lower levels of government undertake important fiscal functions, both on the expenditure side and with respect to revenues (Boadway et al., 2000).

In such federal systems various forms of fiscal arrangements between the national and lower levels determine the way in which taxes are allocated and shared among the various levels of government, and how funds are transferred from one level to another. Thus, intergovernmental relations, both vertical (between levels of government) and horizontal (within levels) are important for the development and operation of an efficient and effective

public sector. According to Bird (1990:281), it is the 'workings of the myriad of intergovernmental relations that constitute the essence of the public sector in all countries'.

The way intergovernmental fiscal systems are organised varies from country to country. These differences partly reflect historical and geographical characteristics of each country, the degree of heterogeneity of the population and the extent of government intervention in the economy.

Given this diversity, how questions of inter-governmental structures and functions are resolved in practice will often differ from country to country (Bird, 1990). Although the diversity complicates broad generalisation, reference to the experiences of other countries is often the only guide available. Despite its limitations, such experience may provide useful lessons in assessing the potential strengths and weaknesses of intergovernmental fiscal systems in any country (Bird & Vaillancourt 1998).

Much of this literature refers to the experiences of industrialised countries where federal fiscal arrangements have evolved over a long period of time. However, fiscal decentralisation - the devolution of taxing and spending powers to lower levels of government - has also become an important theme of governance in many developing countries in recent years (Fukasaku and de Mello, 1999; Manor, 1999; Crook and Manor, 1998). Accordingly, restructuring of governmental functions and finances between the national and lower levels of government has entered the core of the development debate (Fjeldstad, 2001).

Fiscal federalism, a subfield of public economics, is concerned with "understanding which functions and instruments are best centralized and which are best placed in the sphere of decentralized levels of government" (Oates, 1999). The basic foundations for the theory of fiscal federalism were laid by Kenneth Arrow, Richard Musgrave and Paul Samuelson. Three roles were identified for the government:

- Correction of market failure
- Ensuring equitable distribution of income
- Maintaining stability in the economy (full employment and stable prices).

The government was expected to interfere with the market system only when it failed.

According to the basic theory of fiscal federalism, the central government should ensure equitable distribution of income, maintain macroeconomic stability and provide public goods that are national in character such as defence and security, and money and fiduciary printing etc. Decentralised levels of government on the other hand should concentrate on the provision of local public goods while the central government provides targeted grants in cases where there are jurisdictional spill-overs associated with local public goods. In relation to revenue (tax, in the first instance) collection and administration, two factors are considered central for allocating tax-raising powers among the levels of government. These are administrative efficiency and fiscal independence. Tax raising powers should be assigned to the level of government that will administer it efficiently at minimum cost. It is also important that each level of government should be able to raise adequate resources to meet its needs and responsibilities.

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 broad terms, fiscal federalism is the division of power, functions and resources among the tiers (Federal, State and Local government) in a federating system. There are principles that guide fiscal federalism and sustain the overriding factors of administrative efficiency and fiscal independence. These, according to Kalu (2011), include:

1. Independence and Responsibility - The respective tiers of government should not only be autonomous in their resources but such resources should be enough to carry out their autonomous functions.
2. Adequacy and Elasticity - The principle of adequacy means that the resources of the government should be adequate so that each government discharges its obligation. Elasticity implies the expansion of resources in response to rapidly growing needs and responsibilities of the government concerned.
3. Administrative Economy and Efficiency - The administrative cost should be minimal and there should be no frauds and evasions in matters of finance.
4. Accountability - Every layer of government should be accountable to their respective legislature.
5. Uniformity - The financial system should be such that every government in the system should provide adequate level of public service without resort to higher rates of taxation than other states.
6. Fiscal Access - Every state should have the authority to develop their sources of revenue within their own ambit.

It is in furtherance of these principles that the adoption of exclusive and concurrent legislative lists in a federal system becomes relevant. Both the national and state governments are granted certain exclusive powers (the exclusive list) and share other powers (the concurrent list). A conflict often emerges on making decisions based on these criteria. To achieve administrative efficiency centralization is encouraged due to the lower administrative capacity at the decentralized levels. The goal of fiscal independence would encourage the devolution of more revenue-raising powers to lower levels of government to match the functions assigned to them. Hence, the means to these ends contrast.

Intergovernmental fiscal relations covers such issues as models, for the assignment of responsibilities and tax powers, discussions of intergovernmental spill oils and intergovernmental grants, fiscal mobility and migration, vertical fiscal imbalance and dependence macroeconomic management and fiscal decentralization.

According to Egwaikhade (2004:1) several pertinent issues are discernible from the literature. First, is the problem of how to allocate revenue among the three tiers of government, such that each tier can carry out its constitutional assigned functions. There is vertical revenue imbalance with the federal government appropriating more than its fair share from the federation accounts. The revenue expenditure divergence is reinforced through increased fiscal centralization. Intergovernmental fiscal conflict is the resultant direct effect of the concentration process in Nigeria.

Second there is horizontal imbalance – unequal fiscal capacity among states. Derivation principle, which dominated the horizontal revenue allocation scheme between the late 1940s and mid 1960s, exacerbated the horizontal imbalance (Mbanefoh and Egwaikhide, 1988). It was advocated that this criterion should be de-emphasized or discarded since it promoted uneven development. Since 1970s when oil revenue started to account for a sizeable

proportion of Nigeria's total revenue, the use derivation diminished to a negligible level. The third issue has to do with the oil production externalities in the oil-producing states which has climaxed to the demand for resource control by the Southern Governors and leaders.

Put differently, fiscal federalism in Nigeria has its legal basis laid in the constitution. For example, the 1999 constitution contains various clauses in the second and fourth schedules on the powers of the federal, state and local governments and also on the system of revenue sharing and management of public funds. Details of these are contained in sections (i) 162-168, items 59 (part i), item A 1a, b and 2 part (ii) D 7-10 in the second schedule, item 32 a-c in the third schedule and item: 1b, section 7 of the Fourth schedule respectively.

Fiscal federalism according to Anyanwu (1997:159) "... implies the co-existence of both national and sub national governments which perform the economic functions required by the society or an association of two or more levels tiers of government within a country". He goes on to argue that "the method of taking collective decisions is predetermined and that it is relatively efficient".

Fiscal federalism describes the division of fiscal resources and responsibilities among levels of government. It deals with problems arising from the situation of divided political jurisdictions within an economically integrated state-system. It covers efforts to define the appropriate functions and finances of the various tiers of government as efficiently and complementarily as possible to maximize welfare of the political community. Intergovernmental fiscal relations covers such issues as models for the assignment of responsibilities and tax powers, discussions of intergovernmental spillovers and intergovernmental grants, fiscal mobility and migration, vertical fiscal imbalance and dependence, macroeconomic management and fiscal decentralization.

For the purpose of this paper, intergovernmental relations refer to the interactions between levels of government in a state system. Intergovernmental relations are particularly important in a federation because its condition reflects the health of a country's federal structure. Indeed, it is through the mechanisms of intergovernmental relations that the federation functions and jobs get done. Intergovernmental fiscal relations have to do with Fiscal federalism.

Theoretical and Scientific Debates on Intergovernmental Fiscal Relations

There is an age long debate about the benefits of federalism and the attendant challenges it throws up on intergovernmental relations. Kincaid (2001), for instance believes that modern federalism emerged at about the same time as the concept of the market economy and that one very important reason for the formation of the federal union was the need to create a common market that would facilitate the movement of goods. Among the advantages of democratic federations identified by Kincaid (2001 :88) are (1) more efficient provision of public services; (2) better alignment of the costs and benefits of government of a diverse citizenry and, thereby, more equity in so far as citizens get what they pay for and pay for what they get (3) better fit between public goods and their spatial characteristics, especially the variable economies of scale of different kinds of public goods, (4) increases competition, experimentation, and innovation in government sector, (5) greater responsiveness to community and capacity to respond to their preferences, (6) more transparent and close to the citizen accountability in policy/making, (7) more sensitivity to sub/national regional concerns, including the power of constituent governments to provide for their own needs. These advantages have largely been teased out from the works of Hayek (1945) and Tiebout (1956). Hayek's point is that local governments enjoys the advantages of better access to information about local conditions, and are therefore in a better position to make decision than national governments in providing local public goods. Tiebout's idea of laboratory federalism

emphasizes the experimentation from which other regions may learn and imitate that which is successful. Such local experimentation reduces the costs of failure under centralization, where such experimentation would have to be done on a larger scale. Thus, federalism ensures macroeconomic stability, promotes experimentations and innovativeness while securing a huge market so necessary for the achievement of economy of scale. (Aiyede 2008:1).

Revenue Allocation and the Fourth Republic

Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) inaugurated a Special Committee on Revenue Allocation together with the Federal House of Representatives on August 23, 2006 to revisit the 1992 Revenue Allocation Formula the nation has been using to share revenue among the tiers of government. Before then the polity is yet to have a constitutionally backed sharing indices for the Federal (FG), States and Local Government Councils (LGCs). The politics of revenue allocation even in the present democratic dispensation has been so contentious that a week after, the Special Committee headed by House Leader, Abdul Ningi had to undertake Public Hearings between August 28 to 30, 2006 across the six geopolitical zones. In all the centres there were heated debates and even some threats.

At the inauguration was the then Chairman of RMAFC Engr. Hamman Tukur whose Commission is constitutionally mandated to fashion out the revenue formula and the then Minister of Federal Capital Territory (FCT), Mallam Nasir El Rufai who was there to present the Federal government's perspectives on the proposal. There are already some levels of misconception arising from arguments at the inauguration. For instance while the Chairman of RMAFC restated the need for Special Funds to address the need of the constituent units under the custody of Federal Government for joint administration by stakeholders, there have been misinterpretations on this aspect in some sections of the media.

The Minister of FCT too made a very strong representation on behalf of FG where he said it is needless the argument for the creation of 'parallel bodies on fiscal issue.' This was in reference to calls for the separation of Office of the Accountant General of Federation from that of the Accountant General of the Federal Government for impartiality in administering funds in the federation account. He pointed out that it is a crazy idea the attempts to make distinction between Federation from Federal Government. The argument may not likely go down well with keen watchers of Nigeria's political economy. There is no doubt that the President of Federal Republic of Nigeria is not only presiding over the affairs of federal government as a tier, but also of the federation which include other tiers. The Constitution however clearly stipulates items in its Concurrent and Exclusive Lists which limit the level of interference of federal government in the affairs of other tiers. For instance while the constitution does not assign roles for the Ministers and Commissioners, the appointed public officers have their powers delegated to them by their respective heads of governments. Similarly one may cite the attempt by El-Rufai's FCT to establish its own Revenue Board against the existence of Federal Inland Revenue Service; and his preference for FCT to be treated as if it were a state as against governors' resistance to that in the present proposed revenue formula. While some of the arguments may be logical, there is a need for independent institutions like constitutional bodies to be neutral in the politics of the tiers.

With the interest shown by National Assembly and other Nigerians on the Revenue Allocation Formula lately, it may be necessary to highlight its historical perspectives at least from the one formulated in 1992 which was bequeathed to democratic government in 1999. The 1992 recommendation which was used till the advent of democracy in 1999 has the following features: FG 48.5%, State 24%, LGCs 20% and Special fund 7.5% (which was distributed: FCT 1%, Ecology 2%, Stabilisation 1.5% and Natural Resources 3%). The first

proposal in the Regime of President Olusegun Obasanjo which was submitted to National Assembly from RMAFC had this proposal: FG 41.3%, States 31%, LGCs 16% and Special Funds 11.7% (i.e. FCT 1.2%, Ecology 1%, Natural Resources 1%, Agriculture and Solid Mineral Development 1.5% and Basic Education 7%). Before the National Assembly could debate on that proposal, there was a Supreme Court verdict in April 2002 on the Resources Control Suit which nullified provision of Special Funds in any given Revenue Allocation formula.

With that new development, the formula in operation then (from 1992), had to give way as President Olusegun Obasanjo invoked an Executive Order in May 2002 to redistribute the formula to reflect the verdict. That Executive order, which is acceptable by law, gave FG 56%, States 24% and LGCs 20%. But when there was an outcry from other tiers against that distribution, the President reviewed the Executive Order in July 2002 with some adjustments by fraction where the FG had 54.68%, States 24.72% and LGCs 20.60%. In March 2004, the then Minister of Finance, Dr. Okonjo Iweala issued a letter modifying the second Executive Order that increases state allocation to 26.72% and reduces FG to 52.68%. That ministerial circular on the modification has since been the indices for the monthly distributions from the Federation Account.

Between those periods the RMAFC resubmitted another proposal on Revenue Formula where it proposed: FG 46.63%, States 33% and LGCs 20.37%. But for very mysterious reason there was an allegation of circulation of fake bills in the National Assembly. This singular allegation influenced the withdrawal of the formula until September 2004 that another proposal from RMAFC was submitted to the President. That proposal now with National Assembly recommends for FG 53.69%, States 31.10% and LGCs 15.21%. But in the actual fact there is 6.5% built into the allocation of FG to cater for Special Funds thereby leaving the FG with 47.19% as its rightful due. The spirit behind lumping the funds into FG's, is to guard against the repeat of constitutional errors which the Supreme Court voided in its ruling of April 2002. The 6.5% would be applied as follows: Ecological Fund 1.50%, Solid Mineral Fund 1.75%, National Reserve Fund 1.50% and Agricultural Development Fund 1.75%.

From the above historical perspective, one can observe the needless delay, politicking and controversies that trailed this constitutional requirement for statutory allocation from Federation Account to tiers of government. The area that has been greatly misconstrued lately is the alleged adjustment of vertical allocation which does not affect the horizontal formula as it is being insinuated. The horizontal allocation indices are for sharing amongst states and LGCs which include such proxies as Equality, Population, Internal Revenue, Landmass, Rural Road, Inland Water Way, Education, Health and potable water. The vertical allocation to federal, states and local government councils is not changed. Though new problems may arise from the ongoing debate and consultations amongst the stakeholders seeking for upward review, it is better the formula is passed now than delay for another lengthy time.

Unfortunately, the deal might hit a brick wall, as governors in various states of the federation are threatening to back out of the new minimum wage agreement, unless the federal government reviews the existing federal revenue allocation formula. Under the sharing formula, the federal government allocates to itself 52.68 percent of the federal revenue, while a state gets 26.68 percent. The 774 local governments are left with 20.50 percent, while the oil producing states get 13 percent as derivation fund. The governors, hinder the aegis of the Nigerian Governors' Forum, NGF, at their demands that the current revenue allocation must be reviewed; otherwise they would not be able to pay workers the expected N18,000. To press home their demand, the forum set up a six man committee headed by Babatunde Fashola,

Lagos State governor, with the mandate to review the 1999 constitution, whereby the federal allocation will be reviewed.

Ironically, the committee chairperson has agreed to pay the minimum wage to workers in Lagos. The payment took effect from January. The payment, seen as over 100 percent increasing a director in the state service on level 17, will be earning about N4.5 million annually, (N375,000 monthly) while a worker on level 12 will be earning between N1.2 million annually (N100,000 monthly). Edo State governor Adams Oshomhole, has also promised to increase the wages of his workers to a sum not less than N18,000 when the federal government passes the law for the minimum wage (Eme and Elekwa, 2011:29).

However, the bulk of the governors have stated emphatically that they might not be able to pay the new minimum wage. Their refusal to embrace a new minimum wage policy has ignited the fury of trade union. At the delegate's conference of the NLC held in Abuja, the union said it would do all in its power to force the state governments to assent to payment of the new minimum wage, since they too were part of the tripartite pact that lasted for years. The paper takes an overview of the demand of the workers for N18,000 minimum wage in comparison with what political office holders earn and its attendant effects on the economy.

State Governor Stance

The refusal by most state governors to pay the N18,000 minimum wage is premised on the fact that the monthly allocation they receive from the federation account is inadequate to meet the current wage bill and other development project before them.

Indeed, the revenue sharing formula is such that the Federal Government gets 42.6 percent of total revenue leaving the 36 states, the Federal Capital Territory (FCT) and the 774 local governments to share the remaining 47.4 percent.

To this end, the governors are calling for a review in the revenue sharing formula, arguing that the current revenue sharing formula may stall the implementation of the new wage as most states are already overburdened with financial expenditures.

When the issue of the review of the national minimum wage was raised mid last year, some state governors said that they cannot pay the national minimum wage, arguing that they are presently weighed down with workers' monthly salary.

States that have consistently harped on their inability to pay the new wage include Oyo, Ekiti, Ogun, Kwara and Osun States, others include Niger, Kogi, Benue, Sokoto, Yobe, Abia, Imo, Enugu, Ebonyi, Adamawa and Borno.

For instance, Ekiti State Governor, Dr. Kayode Fayemi, had explained his administration would not be able to pay the N18,000 minimum wage, saying the finances of the state was not buoyant enough to pay for the new wage.

Also, Nigeria State Head of Service, Alhaji Ahmed Matane, has said the state government may not be able to pay the proposed national minimum wage of N18,000, noting that with 33,000 workers, the state has the highest number of civil servants in the North.

Matane said the minimum wage would affect capital projects and development in the state, adding that out of the N2.2 billion monthly statutory allocation, about N1.6 billion was used to pay salaries and pensions, while N600 million was left for capital projects and payment of overhead costs to MDAs.

“We have a challenge. We have 33.250 workers on the payroll of the state as against what is obtained in other northern states where they have an average of 22.000 civil servants.

We are on the edge with this new minimum wage. For sure the new minimum wage of N18,000 will be a huge burden on the government, but we are looking into how to manage the development. According to Matane: *“Indeed, the new minimum wage will affect capital projects. That is why we are looking for ways to manage the matter because most of the monies the state receives as statutory allocation are used for payment of salaries”* (Eme and Elekwa, 2011:56).

At the Council of States meeting in 2011, Governors Babatunde Fashola of Lagos, Sule Lamido of Adamawa, then Danjuma Goje of Gombe, Godswill Akpabio of Akwa Ibom and then Ikedi Ohakim of Imo State advised President Jonathan to take cognizance of the Federal structure of the country and for a clause to be inserted into the proposed Minimum Wage Act to give room for states to negotiate how much they could pay. While explaining further on the decision on the minimum wage, Akpabio said:

We decided that the president should forward the minimum wage bill to the National assembly. The best thing will be to work on the present minimum wage bill so that states can negotiate what their minimum wage could be. That means that some states will pay more while others who do not have the ability can pay less.

Goje on his part stated that *“some states are richer than others and while some can pay, others may not be able to pay and taking into consideration that we are a federation, we can negotiate but as at now, the minimum wage is N18,000”* (Eme and Elekwa, 2011:56). He however pressed for deregulation of the fixing of wages so that states could fix and pay wages they could afford.

However, Comrade Adams Oshiomhole did not emphatically state whether his state will pay the new wage or not. Rather, he said that the minimum wage issue was not a decision which the federal government had to take unilaterally without consulting the states, stressing the need for all stakeholders to reach an agreement on it before it could receive national approval.

He explained that the states were awaiting the decision of president Goodluck Jonathan on the recommendation of the report submitted to him by the wage committee, before deciding on the next line of action. According to him: *“As a former labour leader, the interest of workers in Edo State is paramount in my mind. We cannot do a thing that will jeopardize the interest of workers, we are always sympathetic to their causes, so we are not hostile to the idea of a national minimum wage* (Eme and Elekwa, 2011:56).

While some states governors have continued to decry their inability to pay some worker friendly governors have expressed their readiness to pay the new wage when passed as eventually into law. The states that have indicated willingness to pay include Edo, Ondo, Bayelsa and Lagos State which has already commenced payment, while the states that are

neutral on the wage issue include Cross Rivers, Rivers, Delta, Kaduna, Zamfara, Kano, Anambra, Bauchi and Akwa Ibom. Oshomhole had at the 10th Delegates Conference of the NLC openly declared that his government would pay the new minimum wage.

On the revenue review, Oshomhole reiterated that it is unfair that FG gets 42.6 percent of income while 36 states and the Federal Capital Territory (FCT) and the 774 Local Government gets to share 47.4 percent. He added that most of the development takes place in the states and the LGs.

Oshomhole, enlisted the support of organized labour to lend their voices to the recent demand by the Governors Forum for the review of the revenue sharing formula: else many governors would have problems implementing the recently passed Minimum wage bill. Just recently, the Governors Forum came up with a decision to pay the new minimum wage after the federal government might have removed the petroleum subsidy.

Ondo State Governor, Dr Olusegun Mimiko has described the current revenue allocation formula in Nigeria as crippling of development and subversive of the federal arrangement and oppressive to the constituting states. The immediate antidote to this development, the Governor said, was for the in-coming members of the National Assembly to enact legislation on forced compliance with the principles of true federalism. Mimiko, who made this call recently while declaring open an Induction workshop for members-elect of the National Assembly in Akure, insisted that a review of the current revenue allocation formula becomes compelling in consonance with the fiscal federalism that ought to underpin the distribution of resources in a multi-ethnic federation like Nigeria. His words: “*A situation where a disproportionate percentage of national revenue goes to the Federal Government is crippling of development, subversive of the federal arrangement and oppressive to the constituting states*” (Eme and Elekwa, 2011:57).

According to the Governor, the revamping of the energy sector was a major route out of the unemployment market as its stability will make the current alarming rate to take a plunge downward. He specifically cautioned the members elect to creatively devote greater time in revamping the energy sector as well as resuscitating our moribund industries as a way of creating more new jobs and possibly mopping-up the army of unemployed youths in the country. According to him:

Nigeria is a federation of states. You must make laws that will make the component states to harness their own national resources and develop at their own paces. Ondo State is naturally blessed with the largest bitumen deposit in West Africa and it is crying for exploitation which falls within the exclusive list of the Federal Government. He also charged the NASS members-elect to facilitate the process of bitumen exploitation in the State to serve as a viable alternative to petroleum as the mainstay of the nation’s economy (Eme and Elekwa, 2011:56).

Labour, Rights Groups Reactions

Responding to the refusal by some state to pay the new wage, the leadership of the two labour centres has affirmed their preparedness to embark upon strike action if the minimum wage is not implemented by the governors.

There are allegations that some state governments set aside huge funds to finance last April election hence their inability to pay the new wage.

President of the Congress, Comrade Abdulwaheed Omaar, shortly after his swearing in Abuja said the congress would employ everything at its disposal to ensure that all state government and employers pay the new wage.

Omar, in his acceptance speech, said the new leadership of the union would not rest until the right and welfare of years would witness tremendous change in the labour movement with the crop of new leaders. According to the labour leader:

We will press for and sustain the struggle for the implantation of the new minimum wage at the federal, state and local government levels. Our team will strive to improve on the gains recorded on the minimum wage by making sure that employers in the private sector implement the new national wage. We shall ensure that workers earn pay commensurate to work done and standard of living in the country at every given moment (Eme and Ugwu, 2009:15).

Corroborating the NLC President, President General of TUC, Comrade Peter Esele maintained that the new wage bill is binding on all employers of labour, whether federal, states or private sector employers to pay and as such it would be impossible for any employer to refuse to pay. He faulted the statement by some state governors to pay the new wage noting that some states in the country are richer than some of the countries in West Africa, and as such they can pay. According to him:

I do not want a situation whereby we threaten strike before you get wage increase. What we have done is to institutionlise the minimum wage. For the first time, we want to make it a law that any minimum wage decided at the federal level will be binding for every employer of labour in Nigeria. We want to make a law so that we can use it in holding erring states, companies and establishments liable for defaulting to pay. However, we are battle ready to confront and shut down government activities in states that refuse to implement the new wage, and therefore warn any governor that has the plan not to implement the new wage to shelve such or face mass action from the workers. Nigerian workers deserve more than N18,000 and it will be unrealistic for some state governments to claim that they cannot pay the new wage (Eme and Elekwa, 2011:56).

Also, Lagos lawyer, Mr. Fred Agbaje, said the governors are left with no choice than to pay the new wage. He said workers have the right to challenge any governor that fails to pay the new wage. The governors have no option but to pay the money approved by the National assembly as minimum wage for Nigerian workers. Their refusal to pay the amount can now empower any aggrieved workers to go to court to seek redress and challenge the non-payment of the N18,000. If any state fails in that regard, it has violated an existing law. Meanwhile, what happens to the jumbo pay being earnings to accommodate the payment of the minimum wage? However, if any of the state refuses to pay, the alternative for them is to embark on aggressive internal revenue generation. All of them must go and look for the money and pay without delay (Eme and Elekwa, 2011:56).

His learned colleague, Mr. Bamidele Aturu, faulted the statement by Governor Amechi, noting that it was an indication that the state governors do not have the interest of workers at hand. The statement shows that level of lack of respect for the workers by these governors. It

is very unfortunate that they are talking about disparity about what they earned as states. They did not talk or complain when all of them earned same salaries.

It is an act of wickedness in a nation where lawmakers or politicians earn big salaries. I have to believe that what Governor Amechi said was misquoted. The money is there for them to pay. The statement is unacceptable. Illegal, null and void. The NLC can go to court to challenge that illegality, since it has become the Act of the National Assembly. I am sure they were part of the meetings and the public debate leading to this amount. They also intervened when the workers went on strike to protest the increment of their salary. The money is there, they have to pay.

From the above theses it is axiomatic to posit that the sharing of revenue among the tiers of government have continued to attract hot debates. These debates center on the issue of who gets the largest share of the revenue among the three tiers of government, hence Ndongko (1985:3) was not happy with that part of the constitution that allocates more power over finance to the government at the centre. To resolve the conflict of revenue allocation in Nigeria, Ndongko (1981:3) advocated for reduction of the power of Federal Government and decentralization in revenue sharing.

In the same vein, Sabowale (1997) argued that the Federal Government continues to hold on to the lion share of the federation account. According to Eme and Elekwa (2011), the Federal Government between 1999 and 2009 fiscal years collected a total sum of N30 trillion naira accruing to the Federation Account. According to them only 3.921trillion naira was spent on capital expenditure. Civil and Public Servants' wages gulp 8.307trillion naira. Sabowale (1997) was equally not happy with the imbalance in the sharing formula as depicted above and advised both the State and the Local Governments to intensify their drive efforts for internally generated revenue. He stated that until the two tiers become serious about this issue of revenue generation internally, the perennial trips to Aso Rock to solicit for funds will continue. He regretted that most States and Local Governments truly have very few sources of revenue hence the inequitable sharing of the funds has pushed some of these lower tiers of government to imposing illegal levies and taxes on the masses.

Egede (2002:7) shares the same view with Sabowale when he observed that the current revenue formula is characterized by obvious imbalances which placed the States and Local Governments in a disadvantaged position. According to him, some States and Local Governments do not receive enough funds to meet their monthly needs while the Federal Government has more than enough stressing more on the domination of the federal revenue by the Federal Government.

Umoh (2002:6) was equally a strong critic of the imbalance in the revenue sharing system in Nigeria. He was so disturbed that he did not mince words to describe the revenue allocation Act, cap. 16 as amended in 1990 by Decree 106, as unconstitutional. Giving reasons why the Act should be discarded, Umoh maintained that the continued reliance on the law for the purpose of sharing revenue among the federating units was a flagrant disregard of the Supreme Court Judgment on resource control and a breach of the 1999 Nigerian Constitution. Umoh said that the Revenue act was repugnant because in the past, it provided a minimum of one percent. He argued that the one percent fixed by the decree was in conflict with section 162 of the constitution. He went further to condemn the provision of Special Fund in the act because it is not provided for in the constitution. That is to say that allocation to Special Fund

is unconstitutional. For Nigeria to get out of the deadlock, Umoh suggested an enactment of legislation with a new formula in accordance with section 162 of the constitution.

In pursuit of appropriate revenue sharing formula in Nigeria, the association of Governors in Nigeria joined in the fight against the imbalances in the allocation formula. In their own argument, the Governors, during their sixth summit in March 2001 called for a new revenue formula that would give more money to the States and Local Governments than to the Federal Government (Debo, 2002:22). In reaction to the governors' agitation, the Federal Government directed Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) to propose a new revenue formula for the country. According to Omale and Eloagu (2002:1), the Commission quietly increased States allocation to 31 percent from 24 percent while the Federal and Local Governments shares were slashed to 41.3 percent and 16 percent respectively. In response, the Governors rejected the proposed formula outrightly and went ahead to propose one which they termed more realistic, and equitable. According to their proposal, the Federal and State Governments should receive 36 percent each, while 25 percent should go to Local Government.

The National Union of Local Government Employee (NULGE) was not left out in the pursuit for appropriate sharing formula. In their own reaction, the union nationwide condemned the proposed 16 percent allocation to Local Governments by RMAFC. They described the recommended formula as anti grass-root development (Ademola, 2002:4)

Institutional Framework and Components for Revenue Allocation in Nigeria

The Vertical and Horizontal Formulae:- Fundamentally, there are two components of the revenue allocation formula used for the disbursement of the Federation Account as indicated here under. Vertical Allocation Formula (VAF) Horizontal Allocation Formula (HAF)

The Vertical Allocation Formula: This formula shows the percentage allocated to the three tiers of government i.e. federal, states and local governments. This formula is applied vertically to the total volume of disburseable revenue in the Federation Account at a particular point in time. The VAF allows every tier of government to know what is due to it; the Federal Government on one hand and the 36 States and 774 Local Governments on the other (Bashir, 2008:3).

The Horizontal Allocation Formula: The formula is applicable to States and Local Governments only. It provides the basis for sharing of the volume of revenue already allocated en bloc to the 36 States and 774 Local Governments. Through the application of the principles of horizontal allocation formula, the allocation due to each State or Local Government is determined. Thus, it can conveniently be concluded that the vertical allocation formula is for inter-tier sharing between the three tiers of government while the horizontal allocation formula is for intra tier sharing amongst the 36 States and the 774 Local Governments in Nigeria (Bashir, 2008:3) For analytical purposes the tables below provide at a glance the process which takes place monthly in the allocation of revenue from the Federation Account.

Table 1: Institutions and their Roles in Revenue Allocation

S/N	Institution	Role
1	Revenue Mobilization, Allocation and fixed Commission	Monitor revenue accruals into and disbursements from the federation account. It therefore determines the allocation indices
2	Central Bank of Nigeria	A custodian of the federation account
3	Federation Accounts Allocations Committee	It determined monthly disbursement from the federation account. It comprises of representative of the federal, 36 states government, RMAFC, OAGF and other revenue agencies etc.
4	State Joint Local Government Account	It determines monthly disbursement from the State Joint Local Government Account. It comprises of representatives of the State and local governments.

Source: Kabir A Bashir (2008), Workshop paper.

Table 2: Derivation Formula 1960- Till Present

Years	Producing State (%)	Federal Govt (%)	Distributable Pool (%)*
1960-67	50	20	30
1967-69	50		50
1969-71	45		55
1971-75	45 minus off-shore proceeds		55 plus off-shore proceeds
1975-79	20 minus off-shore proceeds		80 plus off-shore proceeds
1979-81	-		100
1982-92	1 and half		98 and half
1992-99	3		97
1999-	13		87

*Source: Adapted from Sagay, 2001 * Beginning from 1967, the federal government shares from the distributable pool.*

Table 3: Nigeria's Federal, State and Local Tax Jurisdiction and Assignment

Tax	Legal Jurisdiction	Collection	Retention
Import duties	Federal	Federal	Federation Account
excise duties	Federal	Federal	Federation Account
Export duties	Federal	Federal	Federation Account
Minning rents & Royalties	Federal	Federal	Federation Account
Petroleum Tax Profit	Federal	Federal	Federation Account
Capital Gains Tax	Federal	State	State
Personal Income Tax	Federal	State	State

Personal Income Tax: armed forces, external affairs, officers. Non-residents, residents of the FCT and Nigeria Police force.	Federal	Federal	Federal
Value added Tax (Sales tax before 1994)	Federal	Federal/ State	Federal / state
Company tax	Federal	Federal	Federation Account
Stamp duties	Federal	State	State
Gift tax	Federal	State	State
Property tax and ratings	State	State/ Local	State/ Local
Licenses and fees	Local	Local	Local
Motor park dues	Local	Local	Local
Motor Vehicle	State	Local	Local
Capital transfer tax (CTT)	Federal	State	State
Pools betting and other betting taxes	State	State	State
Entertainment tax	State	State	State
Land registration and survey fees	State	State	State
Market and Trading license and fees	State	Local	Local

Source: Anyawu, 1995, Jimoh, 2003; Federal Republic of Nigeria Constitutions, 1963, 1979 and 1999

Table 4: Vertical allocation of the federation account, 1981-Till Date

ITEMS	Initial 1981 Act 1/	Revised 1981 Act	1990	January 1992	June 1992 to April 2002	May 2002 (1st Executive Order) *	July 2002 (2nd Executive Order) *	March 2004 (Modified from FMF) 2/ *
Federal Government	55	55	50	50	48.5	56	54.68	52.68
State Government	26.5	30.5	30	25	24	24	24.72	26.72
Local Government	10	10	15	20	20	20	20.6	20.6
Special Funds	8.5	4.5	5	5	7.5			
-A) Derivation (Oil-Producing States)*	2	2	1	1	1	0	0	0
-B) Dev. Of Mineral Producing Areas	3	1.5	1.5	1.5	3	0	0	0
-C) Initial development of FCT Abuja	2.5	0	1	1	1	0	0	0

-D) General Ecological problems	1	1	1	1	2	0	0	0
-E) Stabilisation	0	0	0.5	0.5	0.5	0	0	0
-F) Savings	0	0	0	0	0	0	0	0
-G) other Special Projects	0	0	0	0	0	0	0	0
TOTAL	100							

Source: Adapted from Ojo, 2010

Note:

1.

N

ullified by Supreme Court in October 1981

* From the 1999 Constitution, the 13% Derivation provision is accounted for before the revenue is allocated into the federation account.

2. The current revenue formula is based on the modified grant from the Federal Ministry of Finance, which came to effect in March, 2004

Table 5: Horizontal revenue allocation formula, 1970-Till Date

Principles	1970-80 (%)	Initial 1981 Act (%)	Revised 1981 Act (%)	1990 to 1995 (%)	Proposals of NRMAF C (%)	Proposals of NCC Committee on Revenue Allocation (%)	Current Formula (%)	September 2004 Proposal (%)
Equality of States (Minimum responsibility of Government)	50	50	40	40	40	30	40	45.23
Population	50	40	40	30	30	40	30	25.6
Population Density	0	0	0	0	0	10	0	1.45
Internal Revenue Generation Effort	0	0	5	10	20	10	10	8.31
Land mass	0	10	0	10	0	10	10	5.35
Terrain								5.35
Social Development Factor	0	0	15	10	10	0	10	8.71
Education							4	3
Health							3	3
Rural Road/ Inland Water Way								1.21

Water							3	1.5
Total	100	100	100	100	100	100	100	100

Source: Adapted from Ojo 2010

Table 6: Vertical allocation of the federation account proposals that were not implemented, 1981-Till Date

ITEMS	NRMAFC Proposals Before 1995 (not accepted) (%)	Proposals of the NCC Committee on Revenue Allocation (1994- not accepted) (%)	RMAFC Proposal August 2001 (%)	December 2002 (RMAFC revised formula submitted but withdrawn) (%)	RMAFC Revised Proposal September 2004 (%)
Federal Government	47	33	41.3	46.63	53.69
State Government	30	32.5	31	33	31.1
Local Government	15	20	16	20.37	15.21
Special Funds	0	0			0
A) Derivation (Oil-Producing States)	2	0			0
B) Dev. Of Mineral Producing Areas	2	6.5	1.5		0
C) Initial development of FCT Abuja	1	2	1.2		0
D) General Ecological problems	0.5	2.5	1.0		0
E) Sabilization	0.5	0	1.0		0
F) Savings	2	0.5	-		0
G) other Special Projects	0	3	7.0 (BESA)		0
TOTAL	100	100	100	100	100

Adapted from: Ojo

BESA- Basic Education and Skill Acquisition

NCC: National Constitutional Conference.

Recommendations:

From the foregoing it is crystal clear that revenue sharing formula in Nigeria is problematic. The debates and criticisms generated by this issue seem to be endless. Also, the quest for appropriate and acceptable sharing formula from different quarters in the country is equally a continuous exercise. That in why Falodun (2004) observed that, in the last five years, the 36 States Governments have been at daggers drawn with the Federal Government over the making of a revenue sharing formula that will be acceptable to all the stakeholders. The continuous quest for appropriate sharing formula in Nigeria is evidenced in the present demand by the oil producing states for an increased revenue allocation to them from the

present 13 percent derivation, to 25 percent. According to Udogu (2004), this is a first step towards boosting the percentage to 50 percent derivation.

The issue of derivation principle has equally generated a lot of debates among some critics in Nigeria. According to Ajayi (2004:32), the derivation principle started when agricultural resources had the largest contributions to the national revenue. During this period, derivation, as one of the principles of revenue sharing in Nigeria, was 50 percent. Therefore, the existing regions at the time had enough revenue and control to address their individual problems. But today as Ajayi contends, the issue of revenue allocation in Nigeria has reversed the old derivation principle. He noted that with the de-emphazization of derivation, the oil-producing areas now suffer marginalization and neglect. He suggested that these areas need a fair share of the revenue derived from the oil that is produced from their God-given land. The de-emphasis on the use of derivation principle has brought a lot of untold harm on the country's economy. The huge revenues from the oil sector have made it unattractive for non-oil producing areas to exploit their other non-oil revenue earning potentials. Consequently, all the States and Local Governments have now focused all their attention on the revenue from the federation account.

In order to ameliorate this ugly situation, it is recommended that the federal Government should emphasize greatly on the use of derivation principle in revenue allocation sharing formula. This is to encourage both the oil and non- oil producing areas to look inward for other viable revenue earning sources instead of relying wholly on oil that is depletable.

Also the domineering and exploitative attitude of the Federal Government over revenue allocation in Nigeria should be checkmated by the National Legislative body. In other words, the law making body should enact a bill restricting the Federal Government from encroaching further on the role specifically designated to the Revenue Mobilization, Allocation and Fiscal Commission.

Related to the above, and in other to safeguard national interest, federally collected revenue should be shared in such a way as to ensure that weakness or fallings of one tier of government does not impact with such negative consequences on other stakeholders.

To further address the issue of imbalance in the revenue sharing in Nigeria, the Federal Government should be ready to make some sacrifices by relinquishing a little part of its lion's share from federation account to State and Local Governments to enable them attend to their numerous responsibilities.

Apart from the above, to further resolve the conflict of revenue allocation formula in Nigeria, the State and Local Governments should intensify their drive efforts fro internally generated revenue. The reasonable increase in this revenue will definitely reduce the incessant struggle and quest for more shares of revenues from the federation account.

The National Assembly should also be looking at the constitutional responsibilities of each tier of government as a basis for determining the percentage allocation due to them. (That is matching constitutional responsibilities with adequate funds).

For horizontal allocations for states and local governments, the allocation principles, notably, population, internal revenue generation, and terrain ought to be radically reviewed because they are skewed in favour of under producing federating units over more productive ones. For

example, to justify population as a principle, the populace should know how much accrues to the Federal Pool Account from taxes collected in the thinly and thickly populated states.

There is also the need to review the 1999 constitution by the National Assembly especially section 162 (a – c) to accommodate revenues from privatization and Excess Crude Account accruing to the Federation account.

Furthermore, there is a need for the government to invest on infrastructures, especially Energy, and Roads. What we are saying is that the Federal Governments planned review of the review allocation formula must be guided by the fact that Nigeria is a federal state and any thing short of fiscal federalism is anomalous and fraught with danger for the progress and political stability of Nigeria. Aside from the fact of its centrality to any federal polity, fiscal federalism is a time-tested means of promoting productivity, resourcefulness and healthy competition between and among different tiers of government.

Conclusion

Revenue inflows have been unprecedented since 2000, with the international price of crude oil (now oscillatory between \$45 to \$100 per barrel) hitting levels previously unknown in the annals of world's petroleum industry. Nigeria thus witnessed the advent of "Excess Crude Account" which stood at about \$12billion by May 2006 (Eme et al, 2008); as international prices continuously surpassed budgetary projections. Yet that same regime control not fund the Nigeria Police, the Armed forces, the Foreign Missions, Social services and infrastructure rehabilitation and development and persistently solicited private sector participation in virtually every sphere of national life. What subsequently became a fraud-ridden police equipment fund was established to solicit external funding. Tertiary institutions were forced to devise survival strategies as Federal Government subventions were cut off, and state government took over rehabilitations of Trunk A Roads (federal highways) in their domains.

This article looks at the crisis of revenue allocation formula in Nigeria. One of the things that has been bordering the intergovernmental fiscal relations for a long time had been how to arrive at the most acceptable formula and principles for revenue allocation in Nigeria.

In course of the paper, we found out that the search for appropriate revenue sharing formula in Nigeria has caused a lot of unending conflicts and disputes among the three tiers of government as well as between the Federal Government and the oil producing states. To resolve these crises, solutions were proffered and we believe that there would be remarkable improvement in the allocation of federal revenue in Nigeria, should the outlined measures be adopted.

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