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Oil Economy and the Revenue Allocation Debacle in Nigeria

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Abstract

This paper delves into one of the most controversial issues in the political economy of Nigeria. Equitable revenue allocation in Nigeria is one perennial problem which has not only defied all past attempts at permanent solution, but has equally evoked high emotions on the part of all stakeholders. The paper argue that the displacement of agricultural products by oil as the focal point of national revenue, and the attendant relegation of the principle of derivation in revenue allocation, is the root cause of the revenue allocation debacle in Nigerian federalism. The focus on revenue sharing rather than revenue generation is the root cause of political, economic and social decay in the country and has equally led to the proliferation of unviable state and *local governments. The paper conclude that, the drive for financial autonomy and sustainable development cannot be realized if the derivation percentage is not reversed and increased to eradicate the over dependent posture of the federating units on the over bearing centre.*

Keywords: Revenue Allocation, Derivation Principle, Oil, Federalism**.**

Introduction

Nigeria is Africa's leading producer of oil and the seventh largest producer of crude oil in the world, and equally endowed with other numerous natural resources. But rather than utilizing its resources for maximum development, the country is unfortunately bedeviled with how to efficiently and effectively distribute oil revenues in an equitable manner. The revenue allocation phenomenon in Nigeria is basically the issue of distribution of national (resources) revenue, mobilized by the central federal government. And as far as the revenue allocation debacle is concerned, the haggling is between those who bake the national cake (major contributors to national revenue) and those at the helm of affairs to allocate it. There exist two fundamental dimensions of revenue allocation or sharing in Nigeria. The first dimension is based on the institutions and tiers of government which the federal government is at the helm of affairs. While the second dimension is the issue of individuals and groups appropriating national revenue for themselves by corrupt and unjust means.

It is important to note that, revenue allocation in Nigeria is defined by an inordinately strong political content, as evidenced in the tendency for major constitutional developments and political transactions to be accompanied by political pressures for revenue sharing reforms and fiscal adjustments (Oyediran and Olagunju, 1979). Therefore the questions that beg for answers are: What is the character of revenue allocation in Nigerian federalism. What is the rationale behind vehement agitations for increased revenue allocations in some parts of the country, e.t.c.

This paper seeks to unravel the politics of revenue allocation in Nigeria, identify the major players, losers and gainers, and how national revenue is personalized in Nigeria body polity.

Federalism and revenue allocation

Federalism simply refers to a system of government where there is constitutional division of powers between two or more levels of government.

Revenue allocation in federal systems of government involves two basic schemes. The first implies the vertical sharing between the federal or inclusive government and other tiers of government. The subject of this sharing scheme is the federally generated revenue, such as royalties, export duties, import duties, mining rents etc.

The second principle of revenue sharing which is horizontal revenue sharing arises out of variations from the revenue generation capacities of component units. The logic is that, in areas where the revenue generation capacity is high, a relative higher tax is imposed vice versa to ensure stability. This transfer is called "equalization transfer". The implication is that high taxation in relatively low revenue generated areas will drive away business investments and also cause further depression of the economy of such areas. To avoid this, the federal government has to inject more funds to such areas to create stability (Ojo, 2010).

Nigeria is a federal state. Whereas federalism guaranteed the existence of two or more levels of government, the health of the federal state is seen in the character of the relationship between the various layers of government. One critical aspect of such relationship is the crucial issue of finance which defines the politics of revenue sharing in a multi ethnic society like Nigeria. Finance, no doubt is very critical in Federalism, especially in federal state formed via the devolution method. The idea is that, it determines the extent of autonomy allowed to sub-national governmental units and the citizens in a federation in particular. Key aspects of fiscal federalism include: the nature of mobilization and collection of revenues, the manner of allocation and distribution, and the level of autonomy enjoyed by each level in dispensing with its resources.

There are arguably no universal nostrums or axioms of federal financial relations. Rather, a great variety of national systems of fiscal federalism exist, with each system evolving incrementally in an autonomous manner in response to the unique historical circumstances of each federation (Suberu, 2004:30).

However, there is a high level of financial imbalance in the Nigerian federalism. With the present 36 States and 774 local government structures, where as the federal central government has huge revenue at its disposal to execute its functions much less is available at the level of the other tiers of government. The simple logic of this misfortune is that, the federating or component units are not allowed to control the resources produced in their territories, as was practiced before the advent of the oil regime.

The laws that govern the Nigerian Oil industry equally gives the federal Government dominion over oil proceeds. For instance, under the Petroleum Act of 1969, the entire ownership and control of all petroleum in, under or upon any land in Nigeria is vested in the state (Omorogbe, 2001:20). This and other obnoxious laws like the Land Use Act of 1976 etc, denies the ethnic minorities populated Niger Delta from benefiting from the resources whose burden of production they bear. That is, the Nigerian State has become the manager of Nigerians national income and has maintained a tight grip on the purse strings (Lubeck, 1977).

Federalism is a project. It can be linked to a tool for performing specific tasks in a contributed society. The tool being human invention, always needs to be improved upon in order to make it more effective and efficient to carry out the specific tasks. In the process of work, problems are encountered. These problems provide ideas for improving on the design of the tool in order to improve performance in achieving set goals (Aiyede, 2004:25). Though it has been identified that the tool of revenue sharing (revenue allocation) in Nigeria is bad, faulty and bias, as shown in the obnoxious laws that govern the oil industry, the powers that be have simply refused to improve the design of the tools to make it effective, acceptable cum results oriented.

It is interesting to note that, due to the controversial nature of revenue allocation in most third world federalisms, since the late 1940's, nine fiscal commissions have been set up, to examine the important issue of multi level finance in Nigeria. This is indicative of the dynamic nature of Nigeria's fiscal federation (Egwaikhide, 2005).

Pre-oil economy and competitive development in federal Nigeria

Nigeria became a federation with the introduction of the Lyttleton Constitution of 1954. And the Nigerian federation was then constituted by three regions: Northern, Eastern and Western regions and agriculture was the major source of revenue. A peep into the annals of history shows that, the politics of revenue sharing was very limited when agriculture was the mainstay of the Nigerian economy. This was because; the regions were accorded the constitutional right to control the resources they produce. The regions were rich in agricultural resources with Cocoa in the West, Groundnut and cotton in the North and Palm Oil in the East, and it promoted developmental competition among the regions. That is, there was a strong competition between the regions to become the most developed part of Nigeria.

While Obafemi Awolowo of the Action Group, with its philosophy of "democratic socialism", spear-headed development drive in the Western region, Nnamdi Azikiwe of the National Council of Nigeria Citizens, led the Eastern region with the philosophy of "pragmatic socialism". More so, using the Northern People Congress, and the bulwark of conservatism and primitive capitalism as a vehicle, Ahmadu Bello, the Sarduna of Sokoto, drove development in the North. The then revolutionary free education programme in the western region was funded entirely from cocoa and rubber proceeds. So also were the University of Ife, now Obafemi Awolowo University, Liberty Stadium Ibadan, Cocoa House, Western Nigeria Broadcasting and Television services (the first television station in Africa). Ahmadu Bello University, Zaria and the University of Nigeria, Nssuka, were not built with foreign grants or loans, but from proceeds from cotton, groundnuts and palm oil (Tell, 2008).

The pre-independent revenue allocation principles/formula as shown in the Philipson (1946), Hick-Philipson (1951), Chick (1953), and Raisman (1958), revenue allocation reports clearly indicates that the regions enjoy 100% derivation principle, which they utilized to promote development. However, with the attainment of independent in 1960, the derivation principle was reduced to 50%, as provided in section 134(1) and section 140(1) of the 1960 and 1963 constitutions of Nigeria. And this remains until 1970, when it was gradually reduced to 1.5%.

It is significant to observe that the derivation principle which allows the federating units to benefit maximally from resources produced in their domain was the dominant criteria of revenue sharing in Nigeria during the dominance of agriculture as the focal point of national revenue.

Oil economy and the revenue allocation debacle in Nigeria

As an observable dynamics, the politics of revenue sharing was brought to limelight when oil became the main source of national revenue and oils the wheels of the Nigerian economy. The revenue allocation commissions that were constituted when oil gradually displaced agriculture as the bane of the nation's economy trickled down the derivation percentage, and eventually displaced cum ignored it, as shown in Table 1 below. The commissions were the Binns (1964), Dina (1968), Aboyade (1977), and the Okigbo (1980) Revenue Allocation Commissions.

The interest of minorities does not count if they do not have a significant representation in the ruling class. Therefore, instead of derivation that hitherto benefits the regions, the commissions lay emphasis on Need, Population, Landmass, Balance Development, Equality of states, National minimal standard etc, to the detriment of the goose that lays the golden egg. Without mincing words, the implication is the deliberate and criminal transfer of the oil wealth out of the3 Niger Delta to develop other regions.

It is evidently clear from the tables 1 and 2 that, with the ascendance of oil (found mainly in the homelands of the ethnic minorities) as the pivot of the nation's economy, the interest of derivation on the part of those who wields state power faded, given that it will now promote the interest of the minorities who do not control state power (Ibaba, 2005). The abundant crude oil in the minority territories of the Niger Delta region became a subject of envy, and the majority groups adopted every means to ensure that the owners receives very little benefit from it (Etekpe, 2007).

Due to the difficult terrain of the Niger Delta, and the effect of oil exploration and production, the region obviously needs more funds to promote development, hence agitations to reverse to at least 50% derivation fund for the region. Some may argue that, the Niger Delta, which is agitating for increment in the derivation percentage equally benefits from the era the principle held sway in the pre-oil economy era. However, the undeniable truth is that, the region was Balkanized into the Eastern and Western regions, where they constitute minorities. For example, the western Ijaws in present Delta State were minorities in the Yoruba's dominated western region, and as such were even excluded from the famous free education legacy that the Yoruba's enjoy. More so, the glaring need of development and absence of basic social infrastructures, excruciating property and generation backwardness in the region corroborates the fact, the Niger Delta was neglected parts of the Regions. Yenagoa which was a provincial head quarters since the pre independence era was connected to the national grid in terms of electricity only in 2007.

New conditions produce new negotiations, consensus, balancing and new problem-solving responses. As a resolve to make federalism more relevant to development and governance increases, so do consultations dialogue, negotiation and consensus over emerging issues grow (Ola, 1995:5). But since 1995, efforts to revise the revenue allocation formula have been bogged down by intrigues.

State and local government creation is a tactics of revenue sharing in Nigeria. Since, the states are not viable economically, but totally dependent on the monthly allocation from the federal government, ethnic groups and region balkanized into more states, receives more from the federation account (Mbanefoh and Egwaikhide 2004), and that does not benefit the Niger Delta. According to Aiyede (2005) once a state is spilt in to two, each of the parts become equal with those that remain intact with respect to the size of allocation to be received automatically from the federal government.

The equality principle, for instance, has been the major incentive for the proliferation of non viable sub-federal administrations in Nigeria since it ensures that each constituent unit (no matter how demographically small and administratively and financially weak) is guaranteed an equal share with other units of nearly half of federal revenue in the horizontal distributable pool. In this way, the existence in Nigeria of too many sub-national governments which simply exist to receive and consume their own equal shares of central financial handouts, has undermined the very essence of governance (Olashore, 2003:19).

More so, the issue of using local government as criteria for revenue allocation short changes the Niger Delta region. Bayelsa state (which accounts for about 40% of oil production in Nigeria), for instance has only 8 local government areas, as against Kano state with 44 local government areas. Pitiably, it is the oil wealth that is used to fund the economically non-viable political enclaves created to enrich elites and their cliental cohorts.

What is good for the goose is good for the gender. But as a ploy to deliberately puncture the argument of derivation, scholars and politicians alike from zones outside the Niger Delta are even ignorantly laying claim to oil in the region. For instance, Usman (2002) advances an “organic theory of the state” in which groups with recognized identity cannot now use such to lay claim to national resources that are found in their homeland. Consequently, he argued that: if everybody should take exclusive membership and control of the natural resources in their area, as those attacking the corporate existence of Nigeria are demanding, then those states of Nigeria upstream from the Niger delta, in the Niger-Benue basin, should take exclusive ownership and control of the river water and its sediments drained away from them to form the delta and its hinterland, and demand their share from the returns from the export of crude oil and gas in proportion to what their vegetation, dead bodies, animals and fertile soil, generally contributed to the making of these minerals for hundreds of thousands, and even million, of years.

Be that as it may, the claim to oil resources, advanced by Usman (a northerner), for the states of the north on the basis of their geographical location, has extended application. First, those countries from which and through which the Nile river flows would lay claim to Egypt and its wealth. That is, Uganda, Sudan and Ethiopia would lay historic claims to the resources of the Nile Delta in Egypt. Secondly, if the argument is correct, then the farmlands in Benue-Niger valleys that benefits from the flow of the Niger and Benue through Guinea, Senegal, Mali, Cameroun and Niger, should be claimed by those other countries from which their fertility is derived (Ekeh, 2001:9).

More so, apostles of non-derivation often argue that the continued use of derivation will accelerate uneven progress and development in the country, which is unacceptable. By the very nature of fiscal decentralization, disproportionate growth and development is inevitable. Again, reference can hardly be made to a developing country with a decentralized fiscal system that has achieved balanced development (Myrdal, 1967).

We must reiterate the fact that, the argument of the apostles of increased derivation (the people of the Niger Delta) is that, they are victims of environmental degradation, destruction of the ecosystem and their source of livelihood. The cost of infrastructural development is very high due to the marshy terrain of the region with the myriad of rivers and creeks that characterize the region. The Niger Delta question is the creation of the unsatisfactory fiscal relations between the regions and the federal government, and it equally explains the haggling and agitations to increase the derivation principle to at least 50% as was applicable in the sixties.

It is pertinent to buttress the fact that, corruption which has eaten deep into the Nigerian body polity is not an exception in the Niger Delta, Therefore, with the present 13% derivation principle as enshrined in the 1991 Nigerian Constitution, there are claims that the Niger Delta states should first account for the 13% fund accrued to them for the past decade before demanding for more.

Objective as it seems, calling on the oil producing states to account for past allocations from the federation account has a hegemonic intent. It is actually intended to have a sobering and weakening effect on the argument for derivation principle because, it is selective. Otherwise, this call torches on accountability, an issue that affects all the states of the federation, oil and non-oil bearing states, as well as the federal government, because, more can be shown to have made prudent use of its share of the federation account significantly for the benefit of its constituency (Gboyega,2003). Put differently, corruption is not the exclusive preserve of the Niger Delta. Corruption cannot be the defining variable in the determination of two gets what, when and how; it cannot be (Okoko, 2008). Therefore corruption cannot be used as a criterion to judge whether to increase or reduce derivation percentage that accrues to oil producing states.

Conclusion

Revenue sharing or cake as the case may be, is very crucial in heterogeneous political entities like Nigeria, and especially when there is uneven distribution of political power and natural resources. And that those who wields political power, use it to appropriate more resource to themselves and ethnic groups, and leave those who not control state power with peanuts and mere tokens. The revenue sharing formula in Nigeria is undoubtedly skewed in favour of the major ethnic groups to the detriment of the minority ethnic groups in the Nigerian federal system.

The revenue sharing mentality has also breaded laziness and eroded hard work as a virtue. The reason been that, it has introduced corrupt, unjustified, and bias criteria of appropriating and allocating national resources, which has caused dissatisfaction, disconnect and agitations for redress in the Nigeria state. Most states in the federation have nothing to show for the huge financial allocations they receive from the federal government. And until the trend is revised to make them productive, the drive for competitive development will be elusive.

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Table 1: Federal-States Shares of Proceeds from Distributable Pool

Year	Producing State (Region) Percent (%)	Distributable Pool/Federation Account Percent (%)
1960-69	50	50
1969-71	45	55
1971-75	45(Minus offshore proceeds)	55(plus offshore proceeds)
1975-79	20(Minus offshore proceeds)	80(plus offshore proceeds)
1979-81	-	100
1982-92	1.5	98.5
1992-99	3	97
1999-date	13	87

Source: Text of a World Press Conference organized by Delegates from the South-South Geopolitical Zone to the National Political Reform Conference (2005:23).

Table 2: Horizontal Revenue Sharing Formula for States and Local Governments

Indices	Percentage Weight Assigned		
	1990-date	Initial RMAFC proposal (August 2001)	Revised RMAFC Proposal (January,2003)
Equality of units	40	45	45.23
Populations	30	25	25.60
Social Development factor	10	10	8.71
Internal Revenue Effort	10	8	8.31
Landmass	5	5	5.35
Terrain	5	5	5.35
Population	-	2	1,45
Total	100	100	100

Source: Danjuma (1994)