

# **INTERGOVERNMENTAL FISCAL RELATIONS: THE NIGERIAN EXPERIENCE+**

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**BY  
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# OUTLINE

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- INTRODUCTION
- EVOLUTION OF NIGERIA'S FISCAL FEDERALISM
  - Pre-independence period
    - Phillipson Commission 1946
    - Hicks-Phillipson Commission 1950
    - Louis-Chick Commission 1954
    - Raisman-Tress Commission 1958



# OUTLINE CONTINUES

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- Post-independence period
  - Binns Commission 1964
  - Dina Commission 1966  
(Interim Revenue Allocation Committee)
  - Technical Committee on Revenue Allocation (Aboyade Commission) 1977

# OUTLINE CONTINUES

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- Pius Okigbo Commission 1979
- Revenue Act 1981
- Danjuma Commission 198
- The Democratic Experiment period
- Principles of fiscal federalism
- Challenges
- Conclusion



# INTRODUCTION

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- Federation
- Decentralization
- Nigeria's fiscal federalism
- Military rule
- Democratic Experiment

# Pre-independence

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- Need for financial responsibilities to regions
- Criteria used in declaring regional revenues
- Size of the grants from the central revenue
- Formula for allocating grants among the regions
- Derivation in the sharing of revenue



# Pre-independence continues

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- Phillipson 1946
- Hicks-Phillipson 1950
- Louis-Chick 1954
- Raison-Trees 1958

# Post-independence

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- Economic, social, and political changes
  - civil war
  - creation of states – decentralization
  - ascendancy of the petroleum sector
- Binns Commission 1964
- Dina Commission 1966



# Post-independence continues

- Technical Committee on Revenue Allocation (Aboyade Commission)
  - Local governments entrenched in the constitution as a third tier of government.
- Okigbo Commission
- Revenue Act of 1981 (longest standing revenue formula).

# Post-independence continues

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- Vertical: Federal 55%; States 35%; Local governments 10%
- Horizontal: a. minimum responsibility of states (equality of states); b. population; c. social development; and d. internal revenue effort
- Danjuma Commission (National Revenue Mobilization, Allocation and Fiscal Commission 1988)



# The Democratic Experiment

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- Derivation principle
- On-off shore oil dichotomy
- NRMAFC effectiveness based on the 1999 Constitution
- Presidency vs NRMAFC
- Ministry of Finance vs NRMAFC

# CHANGES AND RECOMMENDATIONS IN THE VERTICAL ALLOCATION FORMULA: 1999-2004

- Revenue allocation of order (President) 2002 beginning May 1999:
  - Federal 56%; States 24%; Local Govt. 20%
  - Federal allocated 48.5% to itself and distributed balance of 7.5% on general ecology and Fed. capital territory;
  - NRMAFC disagreed invoking constitutional provision.



	*1 Revenue allocation of Order 2002 beginning May 1999	*2 Revenue Allocation July Order 2002	*3 Ministry of Finance Allocation Formula January 2004
1. Federal Government	** (i) <u>56%</u>	** (i) <u>54.68%</u>	** (i) <u>52.68%</u>
Federal government	48.5%	48.5%	
General Ecology	2.0%	-	
Fed. Cap. Territory	1.0%	1.0%	
Stabilization Account	1.5%	.725%	
Dev. of Natural Resources	3.0%	3.05%	
Derivation (Ecology)	-	1.46%	
2. State Governments	(ii) 24.0%	(ii) 24.72%	(ii) 26.72%
3 Local Governments	(iii) 20.0%	(iii) 20.60%	20.60%
Total	100%	100%	100%

- January 2004 Ministry of Finance through a letter allocating:
  - Federal 52.68%; States 26.72%;  
Local Govt. 20.6%
  - NRMAFC rejects invoking the 1999 constitutional provision



# PRINCIPLES OF FISCAL FEDERALISM

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- Diversity
- Equivalence
- Centralized stabilization
- Correction of spill over effects
- Minimum provision of essential public goods and services
- Fiscal equalization

# Principles of fiscal federalism continues

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- Efficiency
- Derivation
- Locational neutrality
- Centralized redistribution



# CHALLENGES

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- Non-correspondence
  - lack of correspondence between spending responsibilities and tax powers
  - resolve the imbalance between assigned functions and tax powers

# Challenges continue

- Fiscal autonomy and independence
  - reduced dependence from the centre
  - unpredictable fluctuations in shares of federation account
- Federation Account and the Derivation Fund
  - what constitutes the federation account?
  - first-line charges



# Challenges Continue

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- Oil Producing Areas and the Derivation Principle
  - importance in national economy
  - plight of the Niger Delta region
  - Resource control debate
  - Derivation

# Challenges continue

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- Intergovernmental Fiscal Relations  
And the Economy
  - growth and development cross-sectionally
  - social development
  - capital development



# CONCLUSION

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- Frequent changes in Revenue Commissions
- Not a smooth process
- Constant fine-tuning of the revenue sharing formula

THANK YOU FOR LISTENING





# POWERS AND FUNCTIONS OF THE NATIONAL REVENUE MOBILIZATION, ALLOCATION AND FISCAL COMMISSION

- a. Systematic design, and effective mobilization of all sources of public sector revenues;
- b. Periodic review of the revenue allocation principles and formulae such that would minimize short-term political pressure;
- c. Prescription and application of revenue allocation formulae after due approval by the Federal Government for the purpose of sharing the Federation Account between the federal, State and Local governments;
- d. Monitoring the accruals and disbursement of revenue from the Federal Account, the States Joint Account, the Local Government Joint Account, the various Special Purposes Accounts and such accounts that may from time to time be established or designated by the commission with the approval of the Federal Government

- e.Ensuring full compliance with established revenue sharing arrangements as well as full public accountability for all funds so allocated to various governments and/or agencies involved in the disposition of the Federation Account;
- f.Liaison with the National Planning Commission and similar statutory bodies in the orderly fiscal development of each tier of government;
- g.Collaboration with all layers of government as well as their ministries, departments, agencies, and extra-ministerial units in the prompt, regular and faithful production of public financial statistics;
- h.Determination of the remuneration which it may deem appropriate for political office holders such as members of the executive and legislative branches of government outside the consolidated account;
- i.Commissioning, undertaking or sponsoring studies, analysis and deliberations on subjects which may bear directly or impinge significantly on the policy and operation domains of the federal fiscal system and inter-governmental financial relations;
- j.Making whatsoever general or specific recommendations as the commission may consider necessary for more effective mobilization, collection, allocation and distribution of federal, state and local government revenues, as well as providing guidelines for their efficient implementation; and



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- k. Submitting regular and timely annual reports to the Federal Government on its general activities over and beyond its specific recommendations, or ad hoc submissions on particular subjects, with such annual reports also incorporating the commissions audited accounts.

