Fiscal Federalism and Issues of Resource Control in Nigeria

Nenyiaba, C. I.
Faculty of Management Sciences,
Nnamdi Azikiwe University, Awka, Anambra State, Nigeria.
E-mail: nenyiabaic@yahoo.com

ABSTRACT

This study examines fiscal federalism and resource control issues in Nigeria with a view to resolving the ethnic tension in the country. Data used in the study were obtained from Nigerian government institutions, moving averages. Student t-test and Pearson correlation coefficient were the statistical tools deployed to test the available data for the study. The work reveals that concentration of resources in the hands of the central government resulted in sub-optimum economic growth and that there was no significant difference between revenue allocated to oil and non-oil producing States of the country during the period under study (1960 to 2008) hence there was no impetus on the later to look elsewhere for revenue.

Keywords: *Fiscal federalism, fiscal centralism, resource control; non-fossil fuel.*

INTRODUCTION

Nigeria has been grappling with problems ranging from ethnic conflicts, provision of basic infrastructures, exploitation of natural resources, adopting federalism in principle but practicing fiscal centralism in reality and denying States enough political space to feel free since it obtained independence from Britain in 1960 (Edlyne, 2001). These issues led to the calls for a fundamental restructuring of Nigeria and the restoration of true federal principles with a view to curbing the attendant conflicts and of recent the agitation for Resource Control by eight littoral States of the country and indeed the entire Niger Delta Region (Adesopo and Asaju, 2004; Akujuobi L. and Akujuobi A., 2009). However, the agitations for resource control by restive youths of the Niger Delta Region has recently (2009) culminated into amnesty package and post amnesty issues.

The central issue in fiscal federalism question in Nigeria is that oil and gas provide the necessary resources for the country's development at programmes; yet the oil bearing communities are the least developed part of the country. Regrettably, the exploration and exploitation of the products are causing systematic destruction of the ecosystem in the oil producing areas resulting in environmental degradation, pollution and attendant unemployment and mass poverty. The alleged insensitivity of the multinational oil companies to contribute to the social and economic development of their host communities (that is, corporate social responsibility to the oil bearing communities) is yet another matter that is agitating the communities who are now seeking redress, restitution and/or reparation. Hence the need to further explore and advance solutions to the lingering fiscal federalism issues in the country. Nigerian federalism is alleged to be bastardised and afflicted with Dutch disease (Kirk-Greene, 1967). The country is also alleged to be practicing fiscal centralism especially on the revenue side of the fiscal equation (Ayodele, 2003) and the practice is giving rise to vociferous agitations for resource control by oil bearing communities in the country. Moreover the level of socio-economic development in the country does not justify the enormous revenue that accrued to the country since the oil boom era (1970s). Furthermore, that Nigeria is one of the poorest countries in the world in spite being the 8th largest oil exporting country of the world (Ojediran, 2009) and that the poverty rate is above 70% (UNDP, 2008). Hence, the need to explore the possibility of posting a new revenue sharing model that would ensure the tenet of true federalism and that vertical and horizontal revenue allocations amongst the federating States of the country are justifiable, inspire exploitation of its viable natural resources and ultimately result in reasonable economic development of the entire country.

The major objective of this study is to examine fiscal federalism as practised in Nigeria and identify the merits or demerits in the agitations for resource control by some of its federating States. The following however are the specific objectives of this study.

i. To address the challenges of fiscal centralism and under development in Nigeria.
ii. To ascertain the extent to which devolution of more resources to States and Local Government Areas in Nigeria in consonance with resource control tenets would resolve tension and fiscal problems in the country
iii. To determine if the fiscal policies of Nigeria over the years are responsible for non-exploitation of non-fossil fuel in the country.
iv. To ascertain the extent of the deposits of other mineral resources (non-fossil fuel) in Nigeria and if the country's current revenue sharing indices which discouraged derivation and resource control are responsible for non-exploitation of the resources.

To meet the above objectives, this study addresses the following questions and related hypotheses.

i. Is there any direct relationship between fiscal centralism and under development in Nigeria?
ii. Does devolution of more resources to States and Local Government Areas in Nigeria in consonance with resource control tenets resolve tension and fiscal problems in the country?
iii. Are the past and current revenue sharing formulas by the three tiers of governments in Nigeria responsible for non-exploitation of non-fossil fuel in the country and the country tending towards a monolithic economy?

Hypotheses

$H_0 1$: There is no direct relationship between fiscal centralism and under-development in Nigeria.

$H_0 2$: Devolution of more resources to States and Local government Areas in Nigeria in consonance with resource control tenets does not resolve tension and fiscal problems in the country.

$H_0 3$: The past and current revenue sharing formulas by the three tiers of governments in Nigeria are not responsible for non-exploitation of non-fossil fuel in the country and the country tending towards a monolithic economy.

In view of the current vociferous agitations for resource control by oil bearing communities in Nigeria and the desire to save the country from disintegration, there is an urgent need to explore other modes of revenue sharing amongst the federating States of the country with a view to reducing emphasis on movement of funds amongst the current three ties of government and consequently movement of resources from one set of ruling class to another that are ultimately squandered and/or frittered away to foreign countries. Therefore, this paper focuses on the issue of control and optimum utilization of the entire resources of the country including oil and gas and explores more robust model of revenue sharing other than the current revenue sharing model with a view to resolving the lingering fiscal federalism questions in the country. The outcomes of the research are expected to be of immense benefit to public officers, academia (especially those in public finance domain), local and international business organisations, human right groups, international development associations, United Nations Organisation (UNO) and its agencies.

Fiscal Federalism in Nigeria

Federalism, according to Microsoft Encarta (2009) is a political system in which several States ...defer some powers to a central government while retaining a limited measure of self-government. According to Tanzi (1995) as cited by Ayodele (2003), a federal institution gives rise to fiscal federalism, a concept that is often used to describe the fiscal relationship between tiers of government. He further states that fiscal federalism is essentially about the allocation of government expenditures and resources/revenues amongst tiers of government. The view of this study however is that Fiscal federalism refers to fiscal operations of a Federation whereby each tier of government (Federal, State and Local) operates autonomously unlike a unitary government whereby the central government is all powerful and only delegate functions to the lower tiers. In addition to the United States, Russia and Canada, countries that are considered federalist are Australia, Brazil, Germany, India, Malaysia, Mexico, Nigeria and many others. On the other part Switzerland, Cameroon, France, Italy, Japan, Kenya, Morocco, South Korea, Sweden, and Uruguay are examples of unitary systems (Microsoft Encarta, 2009). Furthermore, Encarta (2009) defines confederation to be a group of loosely allied States or a group of States that became a political unit in which they keep their independence but act together for purposes such as defence - example are European Union (EU) and African Union (AU).

Ayodele (2003) in his study also asserts that while the assignment of expenditures responsibilities amongst tiers of government in Nigeria appear to accord with the norms in public finance and the pattern in majority of federal arrangements around the world, revenue collection and sharing on the other part are concentrated in the hands of the Federal (central) Government. Implying that on the expenditure side the country is practicing fiscal federalism while on the revenue side it is practicing fiscal centralism. After exhaustive examination of the vertical allocation of revenue (that is, examination of the revenue sharing formula amongst the three tiers of government) since 1954 Ayodele (2003) asserts that it has always been skewed in favour of the central government (Federal Government). He further argues that arrangements for horizontal allocation of revenues on the other part, allocated too little a revenue to the minority oil producing communities. Corroborating

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Ayodele's position, Adesopo and Asaju (2004) citing Ashwe (1986) posit that ...the lower tiers of government have been experiencing both vertical and horizontal fiscal imbalances as well as fiscal mismatch between their expenditure responsibilities and their revenue raising capabilities.

Revenue Sharing in Nigeria

Since the central issue about fiscal federalism and resource control in Nigeria is on revenue sharing, it behoves this paper to examine the historical perspective of revenue sharing amongst the tires of government in Nigeria. Since 1946, the commencement of federalism in Nigeria, all major constitutional changes and changes in government have been associated with changes in the revenue sharing rights of the different tiers of government (Ovwasa, 1995). The changes are always preceded by the appointment of fiscal commissions. In all, Ayodele succinctly put it thus: that about 8 fiscal commissions were appointed to examine Nigerian revenue sharing arrangements between 1948 and 1988. The Delta State Government Committee on Review of Revenue Allocation Formula (1999) listed the ad-hoc committees and commissions as shown below: (1) The "Phillipson Commission – 1948, (2) The Hicks Phillipson Commission – 1952, (3) The Chick Commission – 1954, (4) The Raisman Commission – 1959, (5) The Binns Fiscal Review Commission – 1964, (6) The Dina Interim Revenue Allocation Review Committee – 1968 (7) The Aboyade Revenue Allocation Technical Committee – 1977, and (8) The Okigbo Revenue Allocation Commission – 1979. They asserted further that the recommendations of these commissions influenced the revenue sharing formula adopted at the respective periods. Currently, and in line with section 162(2) of the 1999 Constitution of the Federal Republic of Nigeria, the Revenue Mobilization Allocation and Fiscal Commission which was established in 1988 is charged with the responsibility of reviewing periodically the revenue allocation principles and formulae and prescribes and apply the approved formulae for sharing the federation account revenues amongst the three tiers of government of Nigeria.

Ayodele (2003) further asserts that while the tax types have remained virtually unchanged since independence (1960) a number of changes have occurred with respect to who has right to revenues and the most significant appears to be that of mining rents and royalties. He states further that before 1959, regional governments have rights to 100% of mining rents and royalties but with production and exportation of oil in 1958, and following Raisman Commission recommendations, in 1959, this was to be distributed as follows: mineral region (50%), Federal (20%) and Distributable Pool Account (DPA) (30%). Furthermore, according to him, another change that is significant is that in 1994, sales tax, to which States hitherto had 100% right, was replaced by Value Added Tax (VAT) and became federal collectible. This source is the second largest government revenues, second only to mining related revenues. Today, Federal Government has right to 35% of this revenue. In virtually all cases, according to him the changes have been in the favour of the Federal Government and at the expense of the States and that the Federal Government has always chosen the revenue mix that would ensure that it has the lion share of total revenues of the country both in collection and retention. From the findings of his study Ayodele (2003) asserts that:

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…over the years, especially during the rule of the Babangida and Abacha military administrations, various dedicated accounts, that have first charge to federally collected revenues, were created. Examples of such accounts include: AFEM surplus Account, Petroleum Trust Funds, National Priority Project Funds, External Service Funds, NNPC Joint Venture payment Account, Educational Tax Funds, among others. In 1992, such dedicated accounts constituted about 31 per cent of total federally collected revenues, 36 percent in 1993, 41 per cent in 1994 and 43 per cent in 1996. The net effect is that what is available for sharing among the tiers of government is reduced. Thus, it does not really matter if federal share of the "reduced" distributable pool (the Federation Account) is reduced.

In sum therefore, according to the findings of his study, it is worth noting that the collection of about 93.9 per cent of the total Nigerian government revenues is by the Federal Government which implies that the Local and State Governments put together, collect less than 7 per cent of Nigerian government revenues as at 2003 and that this outcome has implications for the fiscal autonomy of the lower tiers of government. It has the origin of the topmost level of government. It is mind bugling what actually informs the various accounts being maintained by the central government. The essence is not to help the country but to sabotage it.

Horizontal Allocation

This concept is about allocation of revenue amongst constituent parts of the same tier of government. It is necessary to cite Ayodele (2003) findings on horizontal allocation of revenue in Nigeria because of his argument that the country's fiscal operations appear to have some elements of tribal struggle. In his words:

…power play amongst the three most dominant and most powerful tribes – the Hausa-Fulanis, the Igbos, and the Yorubas - appears to be the deciding factor in the horizontal allocation of revenues among the constituent units of the lower tiers of government with the Federal Government throwing its weight behind its own power base on the basis of which it was able to mount the saddle of power. Thus, before 1959, when the principle of derivation paid the Hausa-Fulani northern power block the most, fair to the Yorubas of the western power block and at least did not seriously injure the interests of Igbos of the eastern power block, derivation was the dominant basis for revenue allocation among the regions and was then good for national interest and unity. However, as from 1959 that oil and the associated government revenues came from none of these three dominant power blocks, the derivation principle that had been good in the past suddenly became incapable of promoting national interest and national unity. Consequently, derivation was jettisoned even completely in some years. It seems to us, that if oil had come from any of the three dominant power blocks, it probably would have been more difficult to discontinue the application of the derivation principle.

It is the view of this work that the foregoing captures the prevalent sentiments of the minority oil bearing communities in the Niger Delta region of Nigeria. However, this study is anchored on the postulate that there is socio-political imbalance and class struggle in Nigeria. The study took a cue from Ojediran (2009) and O'Connor (1973). Ojediran (2009) on his part, asserts that,

> *In Nigeria, where power is absolute, it corrupts and makes godfatherism backfire, unlike socialized power, which is power used to benefit others and makes leaders primarily concerned with the best interests of their constituents, power in Nigeria is personalized power. Personalized power is the use of power for personal gain. The more of personalized power a leader possesses, the more he focuses on his own egocentric desires and the less able they are to see others' perspectives.*

The above postulates are not entirely surprising because fiscal policies in a multi-ethnic society are usually touchy and may breed injustice. O'Connor (1973) on his part, posits that the allotment of money in a plural society reflects social and economic conflicts between classes and States. He restates it thus: the conflict may arise over the principle guiding the exercise and the fiscal policy, in spite of reasons, may be a tool for the perpetuation of dominance, and the protection of sectarian or class interests. The above buttress the assertion of Amuta (2009) that:

> *I still believe that Nigerians are some of the most resilient breeds of humanity. While the rich can pay their way through private schools, private healthcare institutions and generators, the things that keep the poor peaceful happen to be provided by government: public schools, hospitals, people friendly housing laws and micro credit. The serial failure of governance at all levels has eroded all these and left the poor virtually on their own.*

Going further to proof that there is class struggle in Nigeria Amuta (2009) asserts that Nigerian middle class is "...a class standing in the middle of the road between the excesses of the emergent oligarchy and the increasing misery of the myriad poor". According to Ojediran (2009), "…oil money, enjoyed mostly by a few in a highly skewed income distribution environment, breeds amnesia and blunts pain ...the eight largest exporters of oil, import all of its petroleum products needs... Over 70% of the population are poor … the country's true federalism … has been lost to oil... How can a nation be blind to what other oil producers have done with oil money?"

Resource Control in Nigeria

Adesopo and Asaju (2004) put the issue succinctly as follows: Resource control is all about allowing the littoral States and other southern States of Nigeria (where the nation's resources are derived) to manage the revenue accruing from the oil and other natural resources in line with the tenets of true federalism by contributing an agreed percentage towards the maintenance of common services of the government at the centre as the case was in the first Nigerian republic and as it is being practised in places like Canada, Switzerland, France, and even United States of America where Nigeria copied her system of governance.

In other words, according to Ikpatt and Ibanga (2010), the States make economic decisions regarding exploration, exploitation and sale of own resources with a favourable federal regulatory system while also paying necessary taxes to the Federal Government. Edlyne (2001) in his study puts the struggle for resource control in the Niger Delta region thus:

> *Even with democracy, such agitations and contestations regarding revenue and power allocation pose the threat of derailing the needed democracy. Moreover, the real threats of balkanisation as represented by conflagrations as the Kaimaa Declaration, the Ogoni debacle, the Zango-Kataf mayhem, the Odi shootings among others as well as the large - scale skirmishes in the Niger Delta in the last five years… suggest a dissatisfaction with a federal state that emphasises fiscal centralism. According to a youth leader in the Niger Delta area, "we are in this struggle to get what belongs to us. We provide over 90% of Nigeria's oil revenue and ironically get less than 5% in terms of allocation of the same revenue…*

However, this paper sees resource control beyond oil, in our view it includes allowing communities where the natural resources (see appendix 2 for locations of Nigerian natural resources) are located to manage the revenue accruing there from in line with fiscal federalism tenets. Since exploitation of natural resources is the focus of this paper, it behoves this paper to define the concept - natural resources. Adesopo and Asaju (2004) succinctly defined natural resources thus:

> *…the word "resource" can simply be interpreted to mean the wealth, supplies of goods, raw materials, minerals, etc., which a person or a country has or can use for development or production …. Resources can be classified broadly into Human and Natural Resources…, natural resources can be defined as all those things available to man as "gifts of nature". Natural resources are either renewable or non-renewable but include mineral resources, water resources, agricultural resources, forest resources, and atmospheric resources.*

Continuing, Aluko (1971) asserts that in terms of mineral resources potential, Nigeria is one of the richest countries in Africa with known deposits of tin, columbite, tantalite, wolfram, gold, lead-zinc, limestone, kaolin, clay, shale, marble, radio-active minerals, bartyles, cassiterite, coal, lignite, petroleum, natural gas and hydro-electric power. As stated earlier in this work attempts to ascertain whether the current revenue sharing indices which discouraged derivation and resource control are responsible for the neglect of the resources as veritable base for economic development of the country. Arising from the foregoing, this work cannot but agrees with Kirk-Greene (1967) who puts the matter succinctly thus: "…Nigeria's bastardised federalism has worsened its affliction with the "Dutch disease", a condition in which a country that is rich resource-wise has continued to be lazy and imprudent." This general feeling is summarised by Esele (2009), the President, Trade Union Congress of Nigeria thus: Nigeria government since 1990 did not build infrastructural base to support the growing population and ensure a reasonable quality of life for the people and that this assertion is very obvious in the power sector. That Nigerians are living with candles and kerosene lanterns, which is a throwback to the dark ages. In a

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lecture delivered by Chief James Ibori on Niger Delta and the future of Nigeria in 2009 organized by Business Hallmark, for any meaningful development to take place in the Niger Delta, the Federal Government should deem it necessary to review some laws, which he said militated against the economic development of the region. The laws are Petroleum Decree 51, the Land Use Act of 1979, the Oil in Navigable Water Act, the Oil Terminals Dues Act, the Petroleum Production and Distribution Anti-sabotage Act, the Associated Gas Re-injection Act, Petroleum Profit Tax Act, the Minerals and Mining Act and the National Waterways Decree 1997. He proposed a Niger Delta Marshal Plan and new responsibilities for oil companies, and shareholding for States and Host Communities in oil industries which in his view will remedy the problems of the region. Theoretical underpins for a federal set up in a country are:

1) *Efficiency:* There are duties and formations that can be more efficiently performed only at the Federal level while there are those best suitable to be tackled at the State or Local levels.
2) *Nature of problem and their solutions:* State or local disparities might be too pronounced implying lack of uniformity in the problems faced by each State/Local area and each may have its own economic resources and potentials/limitations.

Therefore an ideal federal arrangement is the one that is harmonious with the culture, social and political values of the people (Bhatia, 2008). He futher asserts that "Federation is not a static and rigid concept. It has evolved into different forms in different countries". We also noted the position of Osisioma (1996) on fiscal federalism who opines that fiscal federalism revolves around four cardinal principles as follows:

a. Fiscal autonomy by delegation of fiscal powers to each component of the federation.
b. Fiscal diversity to allow each component to develop at its pace.
c. Reduction of differences amongst the components thereby attaining some measures of even development.
d. Ensure minimum of essential public services in each locality.

Based on the foregoing premises, Osisioma (1996) suggests the following revenue allocation formula for allocation of funds to State and Local Governments.

Internal revenue effort	*25%*
Derivation	*15%*
Need/National interest	*30%*
Equality	*30%*

He concludes by asserting that "Nigeria can hardly be called federalism" and that:

> *A federal political system is essentially, a contractual non-centralised devolution of the ordinary powers of sovereignty among different centres of government, each coordinated with, and independent of the others. It is not necessarily a hierarchy, nor a pyramid of governments in which power are allocated by "levels", but a structured dispersion of powers typical of a matrix of the federating units."*

METHOD

Nigeria comprises thirty six States, a Federal Capital Territory and seven hundred and sixty five Local Government Areas and the study are on the effect of fiscal centralism on

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the economy of the country (macro-economic effects). Hence, aggregate fiscal figures for each tier of the governments were used for data presentation and analysis. The period covered is from 1960 to 2008. However, to test the three hypotheses formulated for the study, one State (Edo) was sampled from the six States in the Niger Delta part of the country and another State (Bauchi) from the twelve non-oil producing States in Northern Nigeria. Random sampling technique was adopted to select the two States that typify the issue under examination (exploitation of non-fossil fuel in the country) and six years data for each of the States were used for the analysis. The sample size was adjudged to be a fair representation of the entire population.

Secondary data for this study were obtained from various documentary sources on Nigeria's fiscal operations notably Nigerian Bureau for Statistics, the Revenue Mobilization Allocation and Fiscal Commission, the Central Bank of Nigeria – Statistical bulletin and both Federal and State Ministries of Finance and Audited accounts of each tier of the governments. The following statistical tools were used to analyse the data and inferences made from the outcome of the analysis, time series analyses using Modified Moving Averages, difference between means using Student t-test and Pearson correlation coefficient (Ezejelue, Ogwo and Nkamneebe, 2008). Owing to large data size in this study, Microsoft excel 2007 statistical models were used for the t-test, Pearson correlation coefficient, variance and standard deviation analyses. To measure the strength of association or relationship between the funds in the hand of each tier of government and the GDP, Pearson Correlation Coefficient (PCC) model was adopted. The limit of the outcome of PCC is -1 to +1. Minus one indicates strong negative correlation and plus one indicates strong positive correlation. Yearly growth rate of Gross Domestic Product (GDP) of the country being a strong indicator of national economic development was established for each of the years under examination, thereby bringing the country's economic growth trend to the fore.

RESULTS AND DISCUSSION

Federation Account Vertical Revenue Allocation: Table 1 shows Nigeria's federation account revenue allocation indices over the 30 years-period. With coming into force of the 1999 constitution, the then subsisting formula was adjusted to reflect a minimum of 13% of revenue accruing directly to the federation account as derivation in line with the combined effects of the provision of s.162(2) and s.313 of the Nigerian Constitution. The Federal Government began implementing this provision with effect from January 2000 but not before it has introduced a disputable on-shore/off-shore dichotomy unilaterally determined by it to be 60:40 percent. For our purpose, table 2 is very relevant for it clearly reveals the dominance of the Federal Government in the national fiscal. It shows clearly that from 1992 to 1996 there was a dedicated account used by the Federal Government that was a first line charge on the federation account. Therefore, the seemingly reduction in Federal Government indices from 1992 to 1999 in table 1 appears to be a hoax implying that the strangle hold on the remaining two tiers of government was indeed intensified by those dedicated accounts. Appendix 1 shows the nation's GDP from 1960 to date. It is apparent from the appendix that GDP annual growth rate peaked in 1995 and fell thereafter. Table 1 and 2 on their part showed that from 1992 to 1996 resources were concentrated in the hands of the Federal Government and matter worsen when Federal Government in 1994 introduced VAT in replacement of sales tax and retained 35% of the revenue. We note that change in revenue allocation formulae in the year 2000 did not ameliorate the poor GDP growth rate for the year 2000 and beyond. The test on the hypothesis that there is no direct relationship between fiscal centralism and under development in Nigeria is anchored on the premises that available funds for spending impacted on GDP growth, that GDP is a measure of development in an economy and declining and/or negative growth of GDP on the other part indicates underdevelopment. Note also that due to volatility of the environment and many uncontrollable variables that the tests on hypotheses 1, 2 and 3 have to contend with, medium range data were adopted for the analyses; otherwise the tests may not reflect reality (spurious) and may not be predictive. Table 3 shows receipts by the Federal Government from 2005 to 2008. In the test, GDP is the dependent variable while the fund available in the hands of the Federal Government is the independent variable. The correlation between both variables is as below.

Pearson correlation: 0.90295488

Excel Model: PEARSON (E30:E33, H30:H33)

Despite the earlier observations on concentration of funds in the hands of Federal Government from the above results there is a significant positive correlation between the funds in the hands of the Federal Government and GDP growth rate in Nigeria implying that with more funds in the hands of the Federal Government the economic growth may be more significant. Therefore the null hypothesis 1 above is accepted. However the acceptance of the hypothesis does not suggest that the GDP growth rate is optimum but an admission that there is growth. Table 4 shows the funds in the hands of each of the three tiers of government during the four years under examination.

Pearson Correlation: 0.902952488 0.951195443 0.927189097

Excel Model: PEARSON (E30:E33, H30:H33)

In the test aggregate, GDP is the dependent variable, while Federal, States and Local Governments are the independent variables. The test is anchored on the premise that under-development is the causal factor for the social tension in Nigeria. It is apparent from the above table that revenues in the hands of the lower tiers of government in Nigeria have higher positive correlation with the GDP. Recall that the allocation to States from the federation account is 24% in 1999 and 26.72% from year 2000 to date as observed on table 1, implying that the States and Local Governments positively impacted on the development of the nation more than the Federal Government. This position is further buttressed by table 5. It is apparent from table 5 that even with a significant reduction in growth rate of Federal Government revenue in 2007, aggregate GDP did not fall by the same margin implying that arguably, if States and Local Governments had higher allocations their collective impact on the GDP growth rate would have been higher. Conversely, the increase in growth rate in 2008 in the hands of the Federal Government did not impact on aggregate GDP by equivalent margin. The above table therefore shows that the proportional contribution by State and Local Governments to the growth of aggregate GDP is higher than that of the Federal Government. Therefore hypothesis 2 is rejected and the alternate hypothesis that devolution of resources to States and Local Governments in Nigeria in consonance with resource control tenets will resolve tension and fiscal problems in the country is accepted because more development (economic growth) will result if more resources are devolve to lower tier of governments, communities (ethnic group) inclusive.

Although, Osisioma (1996) suggested revenue formula as in the literature review section of this study was based on the four cardinal principles of fiscal federalism, this study is asserting that much as we agree with the principle of vertical revenue allocation which he proposed (Federal government, State and Local Government) should be deepen to include revenue allocation to oil bearing communities along ethnic lines. The above gives credence to the belief that the federal system's value lies in the fact that in such a large and diverse nation, local governing bodies can represent this diversity. In 2002 the United States had 50 states, 3,034 county, 19,429 municipal, and 16,504 township governments (Microsoft Encarta, 2009).

Therefore this study is of the view that the three tier of government: one central government, 36 States and 765 Local Government Areas (constitution of the Federal Republic of Nigeria 1999) and 1 Federal Capital Territory with 6 Area Councils are not sufficient for a plural country such as Nigeria, thereby validating the postulate in this work that increase in fiscal tiers (currently 3) will promote economic growth and may reduce the tension caused by revenue allocation in the country. The tension in the federation is arising from mass suffering amidst abundant resources as stated in the communiqué cited below. In a communiqué released by National Executive Council (NEC) of The Academic Staff Union of Nigerian Universities (ASUU) after their meeting of 30th – 31st January, 2010 as published in This Day of 24th February 2010 the perception of the Union on the state of Nigeria is clearly shown. According to them poverty rate is still very high in Nigeria pegged in some quarters at 70% and above of the population living below US$1 per day and up to 80% living on less than US$2 per day. That security of individuals and communities has worsened. That the promise that electricity in particular and power in general would be steadier by the end of 2009 has become a mirage and that social infrastructures have virtually collapsed in Nigeria. That there is also a growing erosion of the State's capability to fulfil its primary functions as a State and that looting of resources at all government levels is on the increase. That evidence of retrogression of Nigeria is clear from a comparative analysis of Nigeria and a number of countries categorised according to Human Development Index (HDI) culled from a UNDP 2008 report. Nigeria was ranked 158 out of 160 countries using education index, expenditure on health index as well as on energy consumption.

Horizontal Allocation: Horizontal allocation of revenues amongst the 36 States is currently base on population figures, population density, equality, internal revenue effort, land mass/ terrain and social development factors as shown on table 6. The above indices are subject to periodic review (3 years period) by the Revenue Mobilisation, Allocation and Fiscal Commission in line with the 1999 constitution. Delta State's six years revenue profile was used as typical of oil producing States while six years revenue profile of Bauchi State was used as typical of non-oil producing States. Table 7 shows the outcomes of various horizontal revenue allocation formulae used by FAAC. The test is on whether the difference between the mean of the revenue profile of both States for the six years period are statistically significant.

From t-test table 7 at 2.5% 2.571

Excel Model Variance = VAR (G6:G11)

Standard Deviation = SQRT(VAR)

The test reveals that the difference is not statistically significant hence there is no impetus on non-oil producing States to look elsewhere for revenue because the national revenue sharing formula that produce the above result does not encourage financial autonomy of its constituent parts. Little wonder then El-Rufai (2010) asserts that this regular free monthly Federal Allocation has killed true federalism and made us lazy, promoted corruption and has given Nigeria an odious image worldwide. It has not helped us. Consequently, the null hypothesis 3 above is rejected and the alternate that the past and current revenue sharing formulas by the three tiers of government in Nigeria are responsible for non-exploitation of non fossil fuel in the country is accepted. The general perception amongst dominating tribes in Nigeria, in our view, appears to be that, since oil is from minority States the concentration of such wealth in the hands of minority constitute to a larger extent a serious threat to national unity, therefore all hands should be on deck to exhaust the wealth before looking at other resources especially non-fossil fuel as source of wealth which incidentally is abundant in all nook and crannies of the country. See Appendix 2 for the locations of Mineral Resources in Nigeria.

Also from the findings of Ikpatt and Ibanga (2010), Nigeria is rich with lots of minerals with every State liberally endowed and they averred that "…neither the government nor the people are aware that there are resources in every nook and cranny of the country which if properly exploited, are capable of generating as much revenue as crude oil." They also averred that the country looses over USD .50 billion to illegal mining of solid minerals per year. This study also observes that Nigeria practices a novel mix-economy, as on table 5, that tends towards socialist economy by skewing its revenue allocation indices towards equality of States and egalitarianism instead of the capitalist approach that is skewed towards natural endowment and utilitarianism. This work therefore avers that this approach is responsible for the malaise in the economy, laziness, low utilization of natural resources and the Dutch disease syndrome in the country. The following is a summary of the findings of this study.

1. There is a significant positive correlation between the funds in the hands of the Federal Government and GDP growth rate in Nigeria implying that with more funds in the hands of the Federal Government, the economic growth may be more significant. However this does not imply that the GDP growth rate is optimum but confirms that nonetheless the economy is growing.
2. The study reveals also that devolution of resources to States and Local Governments in Nigeria in consonance with resource control tenets will resolve tension and

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fiscal problems in the country because more development (economic growth) will result if more resources are devolve to lower tier of governments, communities (ethnic group) inclusive.

3. The study also reveals that the past and current revenue sharing formulas by the three tiers of government in Nigeria are responsible for non-exploitation of non fossil fuel in the country and the monolithic economy of the country.

CONCLUSION AND RECOMMENDATIONS

Arising from the outcomes of tests on hypotheses 1 and 2, the results show that there is more cohesion and move towards economic growth in the State and Local Governments than at the Federal (the centre). Therefore, since ethnic groups are the natural and basic building blocks of Nigeria as aptly reflected in the country's erstwhile national anthem "our tribe and tongue may differ in brotherhood we stand" with over 400 ethnic groups (predating the country) and Nigerians deference to their respective ethnic groups than the country as a body, its fiscal operations ought not to be restricted to artificially created three tiers of government (National, State and Local Government) that cut across the ethnic groupings. This restriction, this work posits is the casual factor of poor economic growth, ethnic strife, agitation for State creations amongst other issues plaguing the country.

In order to abate the socio-economic malaise, there is therefore the need to deepen the vertical revenue allocation through devolution of resources/revenue to community oriented authorities by recognising the ethnic groupings as the fourth tier. We took a cue from the recently established "Oil Producing Area Development Commission" in Ondo and Delta States of Nigeria (DESOPADEC and OSOPADEC). However, the suggestion here is that each ethnic group should have its commission not an amalgam of ethnic groups as is presently the case with the Oil Producing Commissions cited above. This measure, this study recommends, will resolve the fiscal federalism question in the country and stamps out agitations for State creation and allied strife. Put simply, the components of each of Nigeria's three tiers of government is not homogeneous hence the populace in each of them do not see their public treasury as a commonwealth and consequently accountability is played down upon nationwide which in turn is giving rise to nonchalance and waste of public fund. Whereas unitary nation-states largely owe their citizens loyalty to homogeneity of the people, this could be achieved in a plural state by creating tiers along homogenous groups of people and not along artificial lines as is the case with Nigeria.

This work avers that most of the existing States and Local Government Areas in Nigeria today are artificial creations, thus recommends revenue sharing indices skewed towards capitalism (natural endowment, that is, derivation and utilitarianism) to Nigeria in order to reverse its negative economic trend because it will bring about healthy competition amongst its ethnic groups (communities) for each of them will exploit to the maximum, their natural advantages (endowments) since all nooks and crannies of the country is endowed with one form of natural resources or another and ultimately ensure significant economic development. This model as on table 8 will amongst other things mitigate or stamp out the risk associated with class struggle, monolithic economy and reverse Nigeria moves towards

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becoming a failed State. To reinforce the above recommendation, the current indices for vertical allocation of revenue should be reversed in favour of States, Local Government Areas, Community or Ethnic Groups in this order as proposed on table 9. In other words, the Federal Government should have the least allocation from the federation account. Personal politics should be avoided as much as possible because it is only a government that is ready to play politics of the people and not personal or self politics that can accept and implement this simple truth and solution.

Table 1: Vertical Revenue Allocation Indices

Recipient	**1981**	**1984**	**1990**	**1992**	**1992 June to 1999**	**Current (2000 to date)**
	%	%	%	%	%	%
Federal Govt	55	55	50	50	48.5	52.68
State Govt	30.5	32.5	30	25	24	26.72
Local Govt	10	10	15	20	20	20.6
Special Funds		2.5	5	5	7.5	
Federal Capital T.			1	1	1	
Stabilization			.5	.5	.5	
Derivation	2	2	1	1	1	13
Dev of Oil producing Areas	1.5	1.5	1.5	1.5	3	
General Ecology	1	1	1	1	2	
	100	100	100	100	100	

Source: FAAC (Monthly Allocation Papers)

Table 2: Land Mark Years on Fiscal Centralism

		Raisman		**Sales Tax**	
	1959	**1992**	**1993**	**1994**	**1996**
Derivation	50				
Federal	20			35%	
DPA	30				
Dedicated account	31%	36%	41%		43%
GDP (Growth rate)	1.71	1.28	1.32		1.40

Source: Authors compilations (2012)

Table 3: Receipts by Federal Government

Years	Federal Govt (N)	GDP (N)
2005	1,439,490,698,575.98	14,572,239,000,000.10
2006	1,549,716,206,174.02	18,564,594,000,000.70
2007	1,561,813,074,536.92	20,657,317,000,000.70
2008	1,905,270,584,295.52	23,842,170,000,000.70
Total	6,456,290,563,582.44	

Source: CBN Statistical bulletin (50 years)

Table 4: Receipts by Each Tier of Government

Year	Federal (N)	States (N)	LGs (N)	GDP (N)
2005	1,439,490,698,575.98	1,078,191,750,394.15	613,854,975,704.41	14,572,239,000,000.10
2006	1,549,716,206,174.02	1,213,134,225,416.96	670,427,496,328.41	18,564,594,000,000.70
2007	1,561,813,074,536.92	1,261,960,775,452.35	693,343,555,422.18	20,657,317,000,000.70
2008	1,905,270,584,295.52	1,556,035,220,659.41	858,179,938,139.71	23,842,170,000,000.70
SUM	6,456,290,563,582.44	5,109,321,971,922.87	2,835,805,965,594.71	

Source: CBN Statistical bulletin (50 years)

Table 5: Growth Rates (GR) of Revenue in the hands of each tier of government

Year	Federal (N) B	GR	States (N) B	GR	LGs (N) B	GR	GDP (N) B	GR
2005	1,439.50		1,078.20		613.90		14,572.20	
2006	1,549.70	1.08	1,213.10	1.13	670.40	1.09	18,564.60	1.27
2007	1,156.80	0.75	1,262.00	1.04	693.30	1.03	20,657.30	1.11
2008	1,905.30	1.65	1,556.00	1.23	858.20	1.24	23,842.10	1.15
SUM	6,456.30		5,109.30		2,835.80			

GR = Growth Rate ***Source:*** Derived by Author from table 4 above (2012).

Table 6: Horizontal Revenue Allocation Indices

	%
Population	40
Equality	30
Internal Revenue Effort	10
Land mass	5
Land terrain	5
Social Development Factors (school enrolment, Hospital bed and water installation)	10
Total Percentage	100

Source: FAAC

Table 7: Revenue Allocation to Delta and Bauchi States

	Delta	GR	Bauchi	GR
2000	31,740,000,000.00		8,596,643,000.00	
2001	49,800,000,000.00	1.57	11,826,137,000.00	1.38
2002	46,260,000,000.00	0.93	18,446,740,000.00	1.56
2003	63,320,000,000.00	1.37	14,052,377,000.00	0.76
2004	84,800,000,000.00	1.34	20,297,720,000.00	1.44
2005	104,740,000,000.00	1.24	24,504,000,000.00	1.21
		1.29		1.27
Mean	63,443,333,333.33		16,287,269,500.00	
VAR		729.60		34.50
STANDARD DEVIATION		27.00		5.90
T-TEST		0.01		

Source: Audited Accounts of the States GR= Growth Rate

Table 8: Proposed Horizontal Allocation of Revenue from Federation Account

	Recommended %	Existing %
Population	10	40
Equality	10	30
Internal Revenue Effort	35	10
Land mass	10	5
Land terrain	5	5
Social Development Factors (school enrolment, Hospital bed and water installation)	30	10
	100	100

Source: Author compilation (2012)

Table 9: Proposed Vertical Allocation Of Revenue From Federation Account

	Recommended	Existing
Fed	20.6	52.68
States	52.6	26.72
Local Govt	26.72	20.6
First Line Charge:		
Communities (Ethnic Groups)	50% of Derived Mineral Revenue as a prelude to full resource control as defined by Ikpat and Ibanga (2010)	
States		13% of Derived Mineral Revenue

Source: Author compilation (2012)

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Appendix 1: Gross Domestic Product (GDP)

Years	Total GDP	GR		Total Crude	GR	Solid Minerals	GR
1960	2,233.00			7	19		
1961	2,361.20	1.06		21.2	3.03	21.4	1.13
1962	2,597.60	1.10		29	1.37	25	1.17
1963	2,755.80	1.06		28.8	0.99	26	1.04
1964	2,894.40	1.05		42.2	1.47	31	1.19
1965	3,110.00	1.07		106.8	2.53	36.2	1.17
1966	3,374.80	1.09		129	1.21	34	0.94
1967	2,752.60	0.82	FELL	71.8	0.56	31.8	0.94
1968	2,656.20	0.96		43	0.60	28.6	0.90
1969	3,549.30	1.34		230.5	5.36	34.9	1.22
1970	5,281.10	1.49		489.6	2.12	44.5	1.28
1971	6,650.90	1.26		944.2	1.93	62.3	1.40
1972	7,187.50	1.08		1,144.00	1.21	75.7	1.22
1973	8,630.50	1.20		1,899.20	1.66	87.3	1.15
1974	18,823.10	2.18		4,108.70	2.16	462.2	5.29
1975	21,475.20	1.14		4,165.50	1.01	502.9	1.09
1976	26,655.80	1.24		6,105.90	1.47	691.4	1.37
1977	31,520.30	1.18		7,071.60	1.16	833.4	1.21
1978	34,540.10	1.10		7,539.40	1.07	848.1	1.02
1979	41,974.70	1.22		10,687.70	1.42	861.9	1.02
1980	49,632.30	1.18		14,137.40	1.32	875.1	1.02
1981	47,619.70	0.96	FELL	10,219.80	0.72	882.9	1.01
1982	49,069.30	1.03		8,512.90	0.83	864.2	0.98
1983	53,107.40	1.08		7,388.70	0.87	665.1	0.77
1984	59,622.50	1.12		9,037.40	1.22	585.8	0.88
1985	67,908.60	1.14		11,375.20	1.26	428.6	0.73
1986	69,147.00	1.02		9,558.90	0.84	242.9	0.57
1987	105,222.80	1.52		26,722.80	2.80	286	1.18
1988	139,085.30	1.32		29,859.20	1.12	323.3	1.13
1989	216,797.50	1.56		76,530.30	2.56	590.9	1.83
1990	267,550.00	1.23		100,233.40	1.31	665.6	1.13
1991	312,139.70	1.17		116,525.80	1.16	745.9	1.12
1992	532,613.80	1.71		246,828.00	2.12	923.3	1.24
1993	683,896.80	1.28		242,109.70	0.98	1,209.00	1.31
1994	899,863.20	1.32		219,109.30	0.91	1,556.20	1.29
1995	1,933,211.60	2.15	G	766,518.00	3.50	2,077.20	1.33
1996	2,702,719.10	1.40		1,157,911.30	1.51	2,417.20	1.16
1997	2,801,972.60	1.04		1,068,978.50	0.92	2,826.70	1.17
1998	2,708,430.90	0.97		736,795.30	0.69	3,742.30	1.32
1999	3,194,015.00	1.18		1,024,464.30	1.39	4,140.30	1.11
2000	4,582,127.30	1.43	FELL	2,186,682.50	2.13	4,593.80	1.11
2001	4,725,086.00	1.03		1,669,001.10	0.76	6,002.60	1.31
2002	6,912,381.30	1.46		1,798,823.40	1.08	7,067.50	1.18
2003	8,487,031.60	1.23		2,741,553.90	1.52	8,413.10	1.19
2004	11,411,066.90	1.34		4,247,716.10	1.55	13,051.30	1.55
2005	14,572,239.10	1.28		5,664,883.20	1.33	17,301.50	1.33
2006	18,564,594.70	1.27		6,982,935.40	1.23	27,284.00	1.58
2007	20,657,317.70	1.11		7,533,042.60	1.08	31,454.40	1.15
2008	23,842,170.70	1.15		9,299,524.80	1.23	36,207.90	1.15
		1.26			1.54		1.27

GR=Growth-Rate ***Source:*** CBN's Statistical Bulletin (50 Years).

Appendix 2: Natural Resource Distribution, Agitation For Resource Control State by State assessment of Nigeria's Natural Resources

State	Solid Minerals	Agric./Agro	Oil & Gas	Industrial Potentials
Abia	Brine, Iron ore, Lignite Kaolin, Clay	Cowpeas, Soya beans, Rice, Maize, Cassava, Oil Palm Cocoa, Rubber, Fruits	Petroleum & Gas	Ceramic, Cosmetic Plastic, Petroleum & Gas industries
Abuja	Marble, Kaolin, Clay, Tin, Lead, Zinc	Yam, Cassava, Maize Beans and Fruits	-	Food Processing and manufacture Industries
Adamawa	Barytes, Salt, Calciumlaterites, Marble, Gypsum, Clay	Guinea-Corn, Sugarcane, Yam, Cassava, Maize, Millet, rice, Milk, Cheese, Cotton, Groundnuts	-	Agricultural processing industries
Akwa Ibom	Clay, Glass, Sand Beutonite	Coconut, Cocoa, Rubber, Raffia palm, Coffee, Oil Palm	Crude oil and Natural gas	Agricultural processing, Oil & Gas industries
Anambra	Kaolin, Limestone, Marble	Rice, Yam, Cassava	Crude oil reserve	Oil & Gas industries
Bauchi	Limestone, Columbite, Iron ore, Tin, Kaolin	Sugarcane, Maize, Groundnuts, Millet, Guinea corn, Cotton, Rice	Crude oil (under survey)	Limestone, Ceramic industry
Bayelsa	-	Plantain, Banana, Cassava, Yam, Cocoyam	Crude oil and gas	Oil & Petrochemical industry
Benue	Tin, Columbite, Kaolin Gypsum	Yam, Rice, Maize, Sorghum, Millet and Fruits	-	Food canning/cement
Borno	Gypsum, Iron ore, Feldspur, Limestone, Clay	Millet, Wheat, Arabic gum, Hides & Skins	-	Soda ash, leather industries

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Cross river	Limestone, Baryte, Uranium, Bentonite	Rubber, Cocoa, Oil Palm, Cassava, Rice, fruits	-	Agric &Fishing
Delta	Liqnite, Gypsum, Tar Sand, Silica	Palm oil, Kernel, Cassava, Rubber and Timber	Crude Oil and Gas	Petrochemical, Oil & Wood processing.
Ebonyi	Salt, Limestone, Lead, Zinc, Gypsum	Yam, Rice, Cassava, Maize, Soyabeans	-	Mining, food processing
Edo	Gypsum, Tar sand, Lignite, Marble	Cassava, Yam, Garri, Plantain, Rubber reserve	Oil & Gas	Oil & Gas Industries, Cement, Food & Rubber processing
Ekiti	Tantalite, Quarta, Kaolin, Sand, Clay, Gold, Feldspar	Cocoa, Timber, Palm produce	-	Food & canning, wood processing
Enugu	Coal, Clay, Limestone, Silica, Iron ore, Lead	Oil Palm, Cassava, Rice, Maize, Yam	-	Ceramic, Pottery, Mining
Gombe	Gypsum, Columbite, Lead, Zinc, tin, Iron ore, Clay	Maize, Beans, Groundnuts, Millet, Cotton, Rice, Sugarcane	-	Cotton, cement work
Imo	Limestone, Lead, Zinc, Ore, Kaolin, Clay	Oil palm, Cassava, Cashew	Crude oil	Food processing, oil & gas Industry.
Jigawa	Kaolin, Tourmaline, Copper, Iron ore, clay	Groundnut, Cassava, Wheat, Millet	-	Agro & Food based, Mining, Limestone work
Kaduna	Gold, Gemstone, Talc, Zinc, Clay, Iron ore	Wheat, Millet, Rice, Beans, Potatoes	-	Food processing, Fertilizer industries.
Kano	Tin, Zinc, Lead, Clay, Copper, Kaolin	Onions, Groundnut, Rice, Maize, Wheat	-	Food processing work
Katsina	Marble, Kaolin, Feldspar, Iron ore	Guinea Corn, Groundnut, Millet, Wheat, Maize, rice, Cotton	-	Flourmill, meat processing
Kebbi	Kaolin, Salt, Clay, Limestone, Iron ore	Millet, Guinea corn, Maize, Ginger, Bears fruits	-	Groundnut mills, leather industries.
Kogi	Limestone, Clay, Gold, Iron ore, Coal Marble	Yam, Cassava, Rice, Maize, Coffee, Cashew	-	Ore mining, Cement industries.
Kwara	Iron ore, Marble, limestone, Clay, Feldspar	Yam, Cassava, maize	-	Mining, Food processing
Lagos	Iron ore, Marble, Limestone, Clay, Feldspar	Fish, Coconut	Crude oil	Food processing, oil & gas, paper mill
Nasarawa	Iron ore, Marble, Coal, Lead, Zinc Tin	Rice, Yam, Maize, Cotton	-	Agro Allied industries
Niger	Glass, Gold, Iron ore	Corn, Rice, Yam	-	Energy, Mining
Ogun	Limestone, Chalk, Rice, Clay, Kaolin, Phosphate, Tar Sand	Maize, Beans, palm produce, Cocoa, Rubber	-	Food processing, Mining
Ondo	Bitumen, Limestone, Kaolin, Iron ore produce	Timber, Palm, Cocoa, Kolanut	Crude oil	Oil & Gas, Wood, Food processing
Osun	Gold, Clay, Limestone, Kaolin, Granite	Cocoa, Kolanut, Rice, Maize	-	Food processing
Oyo	Dolomite, Kaolin, Marble, Iron ore, Clay, Gemstone	Cocoa, Palm produce, Kolanut, Cashew, Maize, Cassava	-	Mining, Food processing
Rivers	Silica, Sand, Clay	Palm oil, Fish Cassava, Fruits	Crude oil & Natural gas	Oil industries, petrochemicals, glass works
Sokoto	Kaolin, Gypsum, Salt, Marble, Limestone, Gold	Rice, Wheat, Millet, Groundnut	-	Food processing, Cement industry
Taraba	Baryte, Bauxite, Iron ore	Rice, Guinea Corn, Yam, Cassava, Fruits	-	Food processing, canning
Yobe	Arabic Gum, Gypsum, Limestone, Clay, Kaolin	Cotton, Groundnut, Millet, Maize	-	Food processing
Zamfara	Gold, Mica	Rice Maize, Guinea Corn	-	Food processing.

Source: The Week, April 30, 2001 Page 13

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