

# FISCAL FEDERALISM IN NIGERIA: CHALLENGES AND PROSPECT

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## ABSTRACT

*Nigeria, like other natural resource rich federations, is faced with the challenge of how best to assign the fiscal dividends of natural resources (particularly oil) among the different orders of government to ease the consequences of uneven territorial distribution of wealth. Utilizing secondary sources, the paper reviewed practices in other federations as an appraisal of alternatives from which Nigeria can benefit. The review shows that Federal government monopolization of mineral revenue remains a project pursued by some federations and resented by others. There is yet no consensus among territorial governments in Nigeria, in adopting legislations to deal with the challenge of assigning the fiscal dividends of natural resources. National ownership and control of natural resource is the current practice in Nigeria. Federal legislations for developing and regulating minerals, have taken over much of the fiscal space available for sub-national governments (states and local) to realize resources from mineral wealth. The paper recommended the need to rationalize the system of natural resource taxation by creating different types of fiscal revenue from natural resources, and stratifying them by layers of government. While royalties and production taxes accrue to the nation being the owner of natural resources, others such as, environmental charges, duties on services related to storage and transportation, and taxes on the distribution of resources should accrue to states and/or local governments.*

**Keywords:** *Mineral wealth, Niger delta, federalism, natural resources, fiscal dividends.*

## **Introduction**

The existence of important natural resources such as crude oil is prone to stir conflicts over the sharing of national wealth in federations due to the fact that the geographical distribution of natural resources is usually highly unequal among component units. The challenge is how to deal with the fundamental question of which of the orders of governments possess the ownership rights of natural resources and can therefore exploit their fiscal dividends. Fiscal conflicts of this type are very common in federations. They tend to stir secessionist tendencies particularly in resource-rich regions. Homogenous ethnic groups with large mineral wealth within their territories usually push for self-determination. Many federations have broken up into smaller nation states for lack of fiscal compromise and inability to adopt corresponding legislations for sharing (Collier and Hoeffler, 1998). Adopting acceptable legislation requires a high degree of consensus among territorial governments and the participation of benefiting governments.

Under Nigeria's 1999 Constitution and reiterated in Minerals and Mining Decree (Law No 34 of 1999), ownership of all minerals, mineral oils and natural gas under lands and offshore is vested in the Government of the Federation with management delegated to the National Assembly. Federal revenues are subjected to revenue sharing arrangement. All revenue collected by the Federal government goes to the Federation Account, which is divided among Federal, State and Local governments. There is also the Special Funds designated for special purposes. The states and local governments keep whatever internal revenue they are able to raise themselves, and share federally collected revenue. Revenue is therefore concentrated in only a few of the 36 states, which have onshore or offshore oil production.

Nigeria depends enormously on oil which accounts for 95 percent of foreign exchanges and over 80 percent of national revenues (Agbibo, 2013). And so, oil revenue is very dominant in total national revenue in Nigeria. Yet, sub-national governments (states and local) in Nigeria are deprived of ownership and all forms of control over oil and other important mineral resources. Consequently, there has been a persistent friction between the oil bearing states and the federal government over resource control. There is also the issue of the littoral states claim to offshore oil, the

proceeds of which should be shared between them and the federal government. The continuing tension in the Niger-Delta region in south-south Nigeria bear testimony to the acrimony with which conflicts over natural resources ownership and control can be fought. The call by the states in the Niger-Delta region of Nigeria for the power to equitably exploit their rich mineral resources is very strident. All the ethnic groups in the Niger-Delta region have for a long time been agitating and fighting for resource control or self-determination (Obi, 2014).

This paper is a review of the varieties of options in assigning the fiscal dividends of natural resources in other federations. Their pros and cons are compared with the practices in Nigeria. Revenue sharing of natural resources is a critical question for countries like Nigeria where government revenues are highly dependent on natural resources. The fluctuation of resource prices in world markets often results in highly volatile resource revenues. Yet, in a federal structure it is important for each order of government to be given adequate resources to enable it to discharge its responsibilities (Ekpo, 2007). National ownership and control of natural resources (particularly oil) in Nigeria makes it mandatory to have a workable and acceptable formula to share their dividends among the component units of government. The question that follows is whether such revenues should be shared equally among the states, irrespective of derivation, or should the resource-rich regions have a preferential share. The challenge is how to give adequate resources to the various units in the Nigeria federation in the face of unequal geographical distribution of natural resources. The issue is important because Nigeria faces serious economic, social and environmental challenges and conflicts around natural resource ownership.

## **Conceptual clarifications**

### **Federalism**

Federalism is a system of government whereby a nation's power is shared between a country wide government and a number of territory localized governments in such a way that each exists as a government separately and independently from the other operating directly on persons and property within its territorial area, and with a will of its own and its own apparatus for the conduct of its affairs, and with an authority in some matters exclusive of all the others. The federal system brings together, in an

alliance, constituent governments each of which recognizes the legitimacy of an overarching central government to make decisions on some matters once exclusively the responsibility of individual member states. The component units of a federal system participate in sharing powers and functions in a cooperative manner though the combined forces of ethnic pluralism and cultural diversity, among others, tend to pull their people apart. The constituent parts of a federal system of government are accorded constitutional recognition and vested with legislative, executive and judicial powers to perform enumerated and/or residual functions.

### **Fiscal dividends of natural resources**

Some federations such as Nigeria, Russia, United States etc, are rich in natural resources (oil, gas etc), which can provide large revenue. Such revenues constitute the fiscal dividends of natural resources. Natural-resource revenues come principally from royalties, licence fees, export taxes, and corporate taxes. Such funds remain the primary engine for national economic growth and development in contemporary Nigeria. The role of oil and gas exploitation in Nigeria's development is not limited to the contribution of almost 95 percent of the country's total foreign exchange earnings but form bulk of the national budget often based on annual income from (i) crude export earnings of the Nigeria National Petroleum Company (NNPC); (ii) profit taxes and royalties of oil-producing companies (usually joint-venture companies with a government majority ownership); and (iii) domestic crude sales and upstream gas sales. Others sources of revenue to government outside royalties and production taxes are environmental charges, duties on services related to storage and transportation and taxes on the distribution.

### **Fiscal Federalism**

Natural resources are typically very unevenly distributed between constituent units, causing tension within federations. Discussion of fiscal federalism is an opportunity to look at the rules for the assignment of functions and sources of revenues of different tiers of government and the role of intergovernmental resource transfers and their most desirable forms in a federal system. The economic and political health of federations is dependent on arrangements concerning who collects taxes and other

revenues and who spends them, how, and on what. Ideally, government expenditure should be determined on the basis of government revenue. Theory and contemporary practice in fiscal federalism indicate that contributions from the lower units are not a reliable means of financing federal operations.

In most federal systems, there is usually a constant need for the transfer of resources from one tier of government to the other(s) in order to meet certain developmental challenges or for sundry political reasons. This process is perfectly in order, especially in poly-ethnic societies, with varying revenue potentials among the federating units. This serves as a potent agent of national integration or disintegration, depending, in part, on how it is handled. Consequently, how to achieve effective assignment of revenue-raising powers between governments is one of the most fundamental issues in federations and they tend to utilize different principles (Anderson, 2010; Anwar Shah, 2007).

The allocation of expenditure, regulatory, and tax functions to various orders of government is indeed a very difficult assignment for most federations. The literature on fiscal federalism is however replete with the suggestion that finance should follow function. If sub-national governments are not responsible for raising at least some level of their own revenues, they may have too little incentive to provide local public services in a cost-effective way. When sub-national governments are assigned more revenues than they require; they may have an incentive to reduce taxes (Anderson, 2010; Anwar Shah, 2007).

The assignment of tax jurisdiction in Nigeria is very controversial and problematic. The patterns of tax and expenditure assignments remain the dominant source of intergovernmental fiscal problem in Nigeria. In particular, states and localities' share of natural resource revenues constitutes a significant source of intergovernmental fiscal tension.

### **Theoretical framework**

Two distinct but complementary theories ('resource curse' and 'elite' theories) were adopted to put underlying issues in this study in perspective. Resource curse theory focuses on the challenges associated with natural resource exploration that negatively impacts development (Yusufu-Bagaji et al 2011). The theory is associated with the British

economist Auty (1993) who explored the phenomenon of how countries with rich resources often develop more slowly, more corruptly, more violently and with more authoritarian governments than others.

The elite theory though popular among political scientists was developed by two Italian sociologists, Vilfredo Pareto (1901) and Geatano, Mosca (1939) to explain social relations in societies. The thrust of elite theory is simply that politics is best understood through the generalization that nearly all political power is held by a relatively small and wealthy group of people sharing similar values and interests and mostly coming from relatively similar privileged backgrounds. The theory posits that there exist a select few that shape societal life at the expense of the mass public. A minority of the population takes the major decisions in the society. The need to effectively manage the inevitable acrimony in the socio-political setting in the society due to hierarchical differentiation can arguably be seen as the reason why the elite theory was developed to explain intricate class relations, especially when distribution of available but scarce resources are involved. Elite theory, finds robust attention when examining the intricate nexus of resource politics in a largely culturally diffused country like Nigeria.

The selling point of both theories for this study should be seen in their ability to help explain core message of the study: who collects taxes and other revenues; and who spends them, how, and on what and development in natural resource rich, dependent but culturally diffused state? While the resource curse theory would help situate the place of national development in the management of oil resources in Nigeria, elite theory will help put it into perspective by focusing on the political dynamics of those elites that shape development in the face of accruable resource wealth. In sum, both theories would help put political economies of resource management and development in Nigeria; in perspectives.

The management of natural resources if efficiently done can augment development expectations for endowed nations. However, if development expectations are not realized, people often blame both known and assumed factors as responsible for failure of natural resources to engender development. The resource curse theoretical postulation has tended to consider resource utilization and development discourse without consideration of other salient factors. Yet, several internal socio-political

dynamics shapes development in resource rich and dependent nations. The role of elites in resource management and development process is one of such internal factors. The paper is consequently proposing the need to combine both perspectives to underpin any resource related study. Many resource-rich countries have had disappointing growth (Sachs and Warner, 1995) and presence of Natural resources wealth can turn into a curse if resource extraction result in reallocation of production factors away from sectors with high production growth, or if the rents derived from non-renewable resource exploitation are not optimally invested by the ruling elites in other productive assets such as public infrastructure (Sachs and Warner 2001; Ploeg, 2011).

### **Literature Review**

Practices relating to ownership rights of natural resources and which government can exploit their fiscal dividends; varies from country to country, as well as different constitutional environments. Federations have utilized different approaches to handle the issue of the ownership and management of natural resources and the imposition and sharing of government revenue from them. While many federations assign the fiscal dividends of natural resources exclusively or jointly to subnational governments, almost all federations stipulate some role for the federal government which then faces the challenge of apportioning such revenues between federal functions and subnational governments (Collier and Hoeffler, 1998).

In most of the matured federations such as the United States and Canada, the right to exploit the fiscal dividends of natural resources is assigned to the states and provinces respectively. Consequently, the states and provinces are largely free to levy royalties in mineral rich areas. As observed by Spahn (2008), if sub-national governments are largely free to levy royalties in mineral rich areas, their budgetary resources often need little supplementation. Notably, the discovery of onshore oil reserves in Alberta, Canada in 1948 has enabled that province to overtake Ontario and Quebec on the provincial GDP ranking list and shed its dependence on equalization transfers. Such budgetary affluence has substantially reduced the fiscal burden of the citizens of Alberta, as they can now enjoy high levels of public goods with very little income tax liability (Spahn, 2008).

In many other federations, national ownership, national constitutional rights, or national political control of natural resources predominate. In federations where national ownership predominates, there is likely to be a state monopoly like the Nigeria National Petroleum Company (NNPC) in Nigeria that controls everything from exploration to marketing of (oil) natural resources. Where rent-seeking autocrats or oligarchs exercise this monopoly of power, it tends to promote a combination of economic and political challenges known as the “resource curse”.

The assignment practice in India is diametrically different from the two proto types discussed above. The power to regulate mines and mineral development in the state list of the India Constitution has been made subject to powers given to federal government in the Union list to regulate and develop oil fields and mineral oil resources and regulate mines and mineral. States in India can levy taxes on mineral rights subject to limitations imposed by central laws relating to mineral development. (Rao 2007, Spahn, 2008)

Oil-producing countries have developed a host of public charges such as royalties, concessions, resource rentals geological fees, subsoil user fees, depletion (severance) taxes, production taxes, production sharing agreements, land rentals, land use payments, land taxes, pollution charges and environmental taxes, transportation taxes, including on pipelines, excise taxes (for oil consumption) and oil export duties (Spahn, 2008). Some federal countries faced with assignment challenge, have differentiated and stratified the various charges by layers of government to elucidate multiple fiscal competencies. Some fiscal dividends such as royalties accrue unambiguously to the owner of the resources (nation or province), but others –such as production, taxes, environmental charges, levies for specific infrastructure, duties on services related to storage and transportation, and taxes on the distribution of resources could also fall to regional\state or local governments.

Constitutional assignments of the property rights of natural resources to the state\provinces are usually limited to only resources within their boundaries. Those resources that lie outside the provincial borders are therefore constitutionally owned by the federal government. However, the federal government’s ownership of offshore natural resources does not always preclude the states\provinces from collecting tax from offshore oil

production in the same way other states \provinces tax their “onshore” natural resources. What is common as the Canada case has shown is that such revenue is usually counted as increased tax potential in the calculations for the national equalization scheme in federations where there is equalization legislation. In other words, equalization grants to the provinces are cut to the extent that revenue from natural resources is considered to constitute the province’s “own revenue”. Full equalization should be avoided. As noted by Boadway (2004:9), “full equalization amount to the confiscation of the property rights of provinces and essentially negates the provincial ownership of resources”. Some elements of the fiscal dividend relating to natural resources could be counted as own revenue for equalization purpose in order to establish a fair system for intergovernmental fiscal relations. Other elements would remain uncounted maintaining the fiscal incentives or accounting for related costs and administrative effort. It could also be simplified by including the increase tax potential of regional governments only partially in the equalization formula (Spahn, 2008).

In countries where clear tax assignment rules are absent, the common practice is usually to employ revenue from natural resources to form a fund, which is then shared vertically and horizontally among the constituent governments. One way to prevent such practice from resulting into crisis is to ensure that the sharing is done through transparent compacts that compensate resource rich regions for cost of infrastructure services and environmental degradation associated with natural resources exploitation.

Revenue sharing may have become prominent in a number of federations including Nigeria, Australia, Brazil and Germany; it is however, a more recent phenomenon. Revenue sharing is in fact still alien to many federations such as the United States, where there are clear tax assignment rules (Spahn, 2008). The strategy requires some grade of consensus-democracy because tax sharing rules are typically subject to approval by parliament where representatives of the constituent states, provinces, cantons, or other regional governments are present. It is important to note that tax shares can be adjusted to accommodate for varying expenditure responsibilities at different layers of government. This avoids fiscal imbalances, but it cannot correct regional fiscal inequities where tax sharing is based on the origin principle. State governments with a

high tax potential will obtain larger resources per capita than those with an under-developed tax potential. For this reason, some countries have adopted different sharing proportions for lower tiers of government in accordance with the degree of economic development.

### **Assigning practices in Nigeria**

Fiscal arrangement in Nigeria has been rightly described by Ekpo (2007) as one that is characterized by excessive concentration of fiscal powers in the federal government. This can be attributed to the fact that Nigeria is one of the federations where national ownership of natural resources predominates. The power to regulate mines and mineral development is in the exclusive list of the constitution. Section 44 (3) of the 1999 Constitution of Nigeria as amended gives exclusive rights of oil revenue to the federal government. The power to raise royalties from mineral deposits has been solely vested in the federal government. This national constitutional right or national political control over natural resources is exercised through the Nigeria National Petroleum Company (NNPC) a state monopoly that controls everything from exploration to marketing.

National ownership and control of natural resources (especially oil) in Nigeria demand that there should be a workable and acceptable formula to share its dividends equitably among the component units of government. Both the federal and the state governments are engaged in sharing fiscal dividends of natural resources, even though federal legislations for the development and regulation of mines and minerals tends to take away much of the space available for states to realize adequate resources from mineral wealth. Federal government monopolization of mineral revenue remains a project pursued by some and resented by others.

Assigning the fiscal dividends of natural resources in Nigeria is complicated because oil which is the most important mineral in terms of revenue is found mainly in the states in the Niger- Delta region. The region is the main source of Nigeria's oil wealth which accounts for over 95 percent of its foreign exchange revenues (Oyefusi, 2014). Oloibiri where crude oil was discovered in 1956 is located in (Bayelsa) one of the States in the Niger Delta region. The region which is located in the southern part of the country is made up of nine out of the 36 states in the Nigeria federation

and has a population of about 28 million people out of over 200 million people in the country.

The impact of oil in Nigeria is not limited to the fact that it contributes almost 95 percent of the country's total foreign exchange earnings but also includes the fact that the national budget is predicated on expected annual production and price of crude oil. Therefore, oil is the primary engine for national economic growth and development (Ekpo, 2007). Besides oil revenue volatility, the damaging and disruptive effects of environmental pollution and degradation in Nigeria especially in the Niger Delta region where oil is explored and exploited are enormous and far reaching. The states in this resource rich Niger Delta region are demanding adequate compensation for the ecological costs of exploitation (submersion of land, denudation, etc.). They are also demanding for the right to own and control oil resources in their states to enable them maximize the fiscal dividends accruable. (Tamuno, 2011) Both the federal government which claim ownership of oil and the multinational companies, which actually exploit the reserves, have failed to provide adequate basic infrastructure; alleviate mass poverty; and mitigate environmental pollution in the Niger Delta region. Consequently, Youth restiveness resulting in violent hostilities is very common in the region. Militant groups such as the Niger Delta Avengers (NDA), Movement for the Survival of Ogoni People (MOSOP), Movement for the Emancipation of the Niger Delta (MEND) etc have emerged to demand for a fair share of the fiscal dividends of natural resources in their region. The militants engage in kidnapping of expatriate oil personnel for ransom as well as bomb attacks on critical oil and gas installations in the region with hemorrhaging effects on the national economy. The 'oil war' reduces oil production and compound Nigeria's security and economic woes (Ikelegbe, 2006).

Government's response to militancy has been a combination of military engagement and rapprochement as well as legal and political solutions (Osumah, 2015). Resort to crude force by the government to suppress agitations over resource control is not uncommon. Very notably, is the invasion and destruction of Odi community in Bayelsa state in November, 1999.

The Nigeria state is also reputed with the ability to adopt political solutions to resolve fiscal conflicts among territorial governments.

Constitutional promises such as the provision in the 1999 constitution that at least 13 per cent of the revenue from natural resources would be returned to those states producing it, have helped a great deal to ensure that resource rich regions are compensated for cost of infrastructure services and environmental degradation associated with natural resources exploitation. Several other legislations establishing developmental interventionist agencies and appeasement projects are in place to douse the activities of the militias. They include Niger delta development commission, (NDDC), set up in 2000, Ministry of Niger Delta Affairs established in 2008, Presidential Amnesty Programme (PAP) launched by President Yar'adua in 2009. There is also the local contents regulation forcing all the oil companies to give money to the oil bearing communities.

The counter claims of ownership of revenue from offshore oil by the federal government and the littoral states, is another notable challenge to fiscal federalism in Nigeria. The federal government is still unwilling to concede the principle of granting littoral states the 1960 and 1963 arrangements concerning Nigeria's Continental Shelf for purposes of Derivation.

Consequently, ownership of off-shore natural resources especially oil and gas and the right to exploit their fiscal dividends remain a major source of vertical fiscal conflicts in Nigeria. All the littoral states: Delta, Cross River, Rivers, Akwa Ibom, Bayelsa, Ondo, Ogun and Lagos, have continuously laid claim to resources off their shores, seeking to be accommodated, as it were, in the sharing of revenue accruing from the resources. The states claim that their territories extended beyond the low-water mark onto the territorial water and even onto the continental shelf and exclusive economic zone. They maintain that natural resources derived from both on-shore and off-shore were derivable from their respective territories and in respect thereof, each was entitled to the not less than 13 percent allocation as provided for in Section (162) sub-section (2) of the 1999 Constitution as amended. The Federal government's contention are: (1) that the Southern (or seaward) boundary of each state is the low-water mark of the land of such state or, the seaward limit of inland waters within the state as the case so requires and (2) that the natural resources located within the continental shelf of Nigeria were not derivable from any state of the federation (Imuetinyan and Mustapha, 2017).

The crises ended in litigations involving the federal government and the states. The Supreme Court gave judgment in favor of a dichotomy between on-shore and off-shore natural resources. The decision of the Supreme Court indicates that offshore mineral resources legally do not belong to the littoral states. This was considered to discriminate against the littoral states. They pointed out that in the event of an oil spillage from so called “off-shore” platform or rig, the impact will not be restricted to the seaward boundaries as defined by the Supreme Court. They also observed that the impact of chemicals leaking from platforms and the flaring of gas (which has gone on for the past 50 years) have not been restricted only to the seaward boundaries as defined by the Supreme Court. The Supreme Court judgment in favor of the distinction meant that the littoral states lost quite a substantial amount of funds from the Federation Account (Tamuno: 2011).

The committee set up by government to look into the matter was able to resolve it through dialog. The previous dichotomy on offshore and onshore revenues was removed to allow the littoral states to benefit from the 13 percent derivation clause in the constitution. Ideally, offshore resources belong to the entire country and should be shared equally among them. Neither the states nor the federal government can claim exclusive ownership of revenue from offshore oil. This position was affirmed at the UN Law of the Sea Conference of 1982. After all, without the states there can be no federal government. There is no provision in the convention agreed at the UN Law of the Sea Conference vesting total ownership of offshore oil in the federal government. The law of the sea comprises the rule governing the use of the sea including its resources and environment (Anthony, 2010).

Compacts for the sharing of the fiscal dividend of natural resources should be transparent to be effective. President Obasanjo’s administration (1999-2007) provoked all the oil bearing states in the Niger delta when it deliberately reneged on implementing the 13 percent derivation clause in the constitution. The elected governors and legislators of the Niger delta region were forced to join the fray and applied the resource control mass campaign to call him to implement it in April, 2000. That administration also deliberately under funded the Niger Delta Development Commission (NDDC), one of the intervention agencies, to a point of impotence.

Consequently, militancy continued until 2009 when a comprehensive Presidential Amnesty Programme (PAP) was launched by President Yar'adua. Through the PAP colossal amount of money was invested to train Niger Delta people in several vocations in and outside the shore of Nigeria. Certainly, the implementation of the PAP based on Disarmament, Demobilization, and Reintegration (DDR) framework led to a steady rise in oil production (Ikelegbe and Umukoro 2014).

The absence of clear and acceptable assignment rules over natural resources dividends in Nigeria makes revenue sharing to become a tool for correcting and resolving vertical and horizontal fiscal conflicts. Fiscal allocations to federal and sub-national units (states and local governments) are critical matters in Nigeria. Deprived of the right to exploit the fiscal dividends of natural resources, the lower tiers of government in Nigeria virtually depend on their shares from the federation account. Government activities in many states and local governments will be grounded if allocations from the Federation Account Allocation Committee (FAAC) were not forthcoming.

It is very important to note that before oil revenue became so dominant in total national revenue, sharing among the three regions of Nigeria was based on 50 percent derivation. Between 1946 and 1958 four separate commissions set up by the departing colonial power recommended that 50 percent of total revenue be shared on the principle of derivation, that 35 percent be shared by the regions, and only 15 percent to the federal government. In 1964, after independence, the Binn Commission reduced the allocation of the federal government from 20 percent to 15 percent. This was the basis of revenue sharing among the units of the federation before the military seized power in 1966 (Olaluku, 1979).

Under the military, the share of the federal government in total revenue was progressively increased. Oil had become a major factor in national revenue. The process of the erosion of the principle of derivation for revenue sharing began with the military's Decree 13 of 1970, which reduced by 5 percent revenue shared on the basis of derivation. In addition, the decree transferred all the revenue from off shore oil wells to the federal government. Between 1976 and 1979, the military regime reduced by a further 20 percent revenue distributable on the basis of derivation. In 1981 the Shagari regime made a further reduction of 20 percent on revenue

sharing on the basis of derivation. With this, revenue distributable on the basis of derivation fell from 50 percent at independence to only 5 percent. When the military returned to power in 1984, revenue sharing on the basis of the principle of derivation was further reduced to 1.5 percent. Virtually all the leaders of the military regimes undermined the principle of derivation as the basis for the sharing of the national revenue in Nigeria (Olaluku, 1979).

At the defunct Reform Conference of 2005, the majority of the delegates were willing to support an increase of additional revenue for the oil bearing states from 13 percent to 19 percent, but this modest increase was rejected out of hand by the delegation from the Southeast and South-south which insisted on nothing less than 25 percent of the total oil revenue. It was on that dispute that the 2005 Conference broke down completely.

The Northern delegation at the 2014 Conference rejected all claims to oil resources by the oil bearing states, particularly those in the Niger Delta region. Specifically, they demanded that all minerals, including oil, should remain under the exclusive list of the federal government, and that the previous dichotomy on offshore and onshore revenues be restored. They also opposed the principle of derivation as the basis for sharing the national revenue, particularly the oil revenue which accounts for over 80 percent of the total national revenue. The oil bearing states, particularly in the Niger Delta vehemently, rejected the Northern delegates' position and indeed, demanded for an increase of additional revenue from 13 percent to at least 25 percent.

## **Conclusion**

The capacity of the Nigeria federation to achieve consensus among territorial governments over the sharing of the fiscal dividends of natural resources is constrained by the serious divergence in natural resource endowments in the different states and regions, as well as the practice of national ownership and control of natural resources. National ownership and control of natural resources tends to place the states in the Nigeria federation in an invidious situation of having to rely on the federal government for financial bail outs. The states as constituent units of the

Nigeria federation have rights to share in the fiscal dividend of natural resources.

Fiscal conflicts in Nigeria have proven hard to resolve due to the fact that they entail resolving vertical and horizontal challenges at the same time. The lower tiers of government are virtually coerced to accept payments made by the NNPC (and other federal revenue collection agencies) into the federation account despite misgivings over remittances made by them. The states tend to take what they are given due to accumulated commitments such as pressures over unpaid salaries.

Current legislations for developing and regulating mines and minerals have taken over much of the space available for states and localities to realize resources from mineral wealth. The total share of the federal government in the national revenue, over 90 percent of which is from oil exports, is 56 percent.(Ekpo,2007: 216) This is a massive negation of the principle of fiscal federalism. It is absolutely obnoxious and the states are right in demanding a drastic review of the existing fiscal regime as it hurts their financial viability.

### **Recommendations**

Fiscal conflicts over natural resource ownership and taxation can be resolved by rationalizing the system of natural resource taxation, creating different types of fiscal revenue from natural resources, and stratifying them by layer of government. It is our recommendation that fiscal dividends such as royalties and production taxes accrue to the nation being the owner of the resources, but others such as, environmental charges, levies for specific infrastructure, duties on services related to storage and transportation, and taxes on the distribution of resources should accrue to states and/or local governments. The different layers can then exploit such resources to augment their budgetary capacity.

The role of rent-seeking autocrats or oligarchs in the Nigeria oil industry tends to promote a combination of economic and political challenges known as the “resource curse”. It is the recommendation of this paper that the over 400 oil bloc licenses owned by individuals who have become richer than the state should not be renewed once they expire. Oil bloc licenses should be reserved to the state governments only. If the states of the federation are awarded oil blocs for exploration, the resources

derived from the ventures would serve to benefit the public and not some influence and rent-seeking individuals as is the case today.

Above all the unwholesome dependency on oil rents by all tiers of government in Nigeria has gone on for too long. As long as oil continues as the country's mainstay, no regime will ever like to implement transparency in the oil sector. While we eagerly wait for the day when the system is restructured for stronger fiscal federalism, we recommend that the Nigeria National Petroleum Company (NNPC) that currently controls everything from exploration to marketing of oil and gas resources should be made more accountable on revenue remittance to the federation account.

The oil bearing areas need extraordinary expenditure through intergovernmental transfers to address the devastation and the degradation suffered. Consequently, adjustments in revenue sharing formula to allow for compensation are recommended. The derivation principle should be retained and the percentage increased from the present 13 percent to 25 percent. Lastly, the federal share of the amount in the federation account should be reduced to allow for more funds to sub national governments as a remedy to the problem of imbalance and disparity in the tax powers assigned to the different orders of government in the Nigeria federation. Revenue and tax shares in Nigeria need to be adjusted to accommodate for varying expenditure responsibilities at the three different orders of government.

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