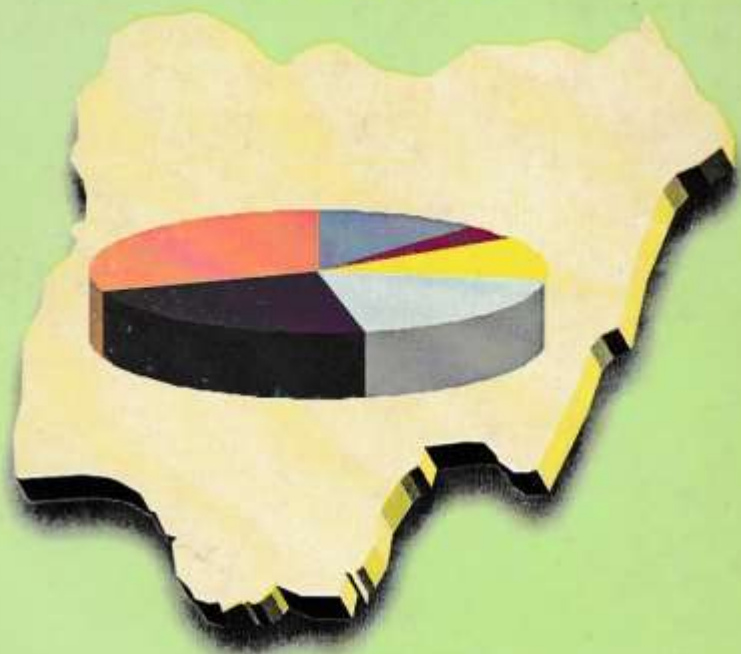


# Issues in Fiscal Federalism and Revenue Allocation in Nigeria



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**PART I**

**GENERAL ISSUES**

## **Keynote Address**

***FOLA LASISI\****

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### **INTRODUCTION**

I want to first welcome all of you to this special occasion.

I wish to thank the Federal Ministry of Finance for establishing the Professorial Chair in Public Finance and naming the chair after the former Federal Minister of Finance, Chief Anthony Ani. In addition, I wish to express my satisfaction on the first holder of this esteemed chair, Professor Akpan H. Ekpo, for organizing this one-day round table discussion. To the best of my knowledge, this is the first time that a professorial chair in the University of Uyo is holding this type of academic round table discussion. I am happy to be here and present the keynote address.

The professorial chair in Public Finance is one of the highest endowed chairs in the country. The holder of the chair is expected to direct research in the area of public finance, teach public finance courses and hold seminars, among others. What we are having today is, therefore, in the right direction. Consequently, the chair

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\* Professor Fola Lasisi, the Vice-Chancellor, University of Uyo, Uyo. 24 November, 1999.

will enrich the programme in the Department of Economics and uplift the image of the University of Uyo. We are extremely grateful to the Federal Ministry of Finance for endowing the professorial chair in public finance.

I wish to now deal with certain aspects of fiscal federalism and revenue allocation in Nigeria.

### **Fiscal Federalism and Revenue Allocation**

The theme for this discussion: “Fiscal Federalism in Nigeria: The Political Economy of Revenue Allocation,” is timely and policy relevant. In recent times, our nation has been debating the best approach to resolving the problem of revenue allocation. Revenue allocation is crucial in any discussion on Nigeria’s fiscal federalism.

In a federal type of government, fiscal federalism involves the fiscal relationship between the different tiers of government. The fiscal relationship revolves around expenditure and revenue matters, and fiscal federalism connotes revenue and expenditure decentralization. The assumption that decentralization is healthy for the economy is supported by recent studies that confirm that fiscal decentralization can stimulate economic growth and development. Fiscal relationship among the three tiers of government — federal, state and local governments — in Nigeria has been a matter of concern to both our former colonial masters and the various governments in Nigeria since independence. Consequently, from the early 1940s, the creation of various revenue commissions characterized our pursuit for a healthy and prudently managed economy.

Within the context of fiscal federalism, revenue sharing among the various tiers of government remains highly sensitive and controversial. It is important to continue the debate because of the

importance of fiscal balance for the wider economy. Large fiscal imbalance at the lower levels of government creates macroeconomic instability for the wider economy.

Permit me to mention the important issue of derivation. The principle of derivation ought to be. Is the principle of derivation influenced by politics or economics? Today, the oil-producing areas of Nigeria are clamouring for an increased share in the revenue derived from oil. They are insisting that the derivation variable must have a larger percentage in the sharing of resources. Why has the principle of derivation become so controversial? How do we address the problem if we are interested in building a federal structure? I have long personally believed that the anomalies must be addressed, and there is no better time than now. The longstanding injustice on this particular issue must end!

I am aware that the debate on reviewing the 1999 Constitution is on. Invariably, your discussion must consider the aspect of revenue sharing in the present constitution and suggest practical ways of improving the fiscal relationship existing among the different tiers of government. For example, why does the federal government have to be the one collecting all juicy taxes? Should some taxes not be assigned to the lower levels of government? Developmental responsibilities must be matched with taxing powers.

It is important to deliberate on the items that constitute the Federation Account as well as on the formula for vertical and horizontal revenue sharing. Are the present percentages just and fair? Matters of equity ought to deal with fairness and justice. At present, the federal government pays its debt from the Federation Account before sharing out resources to the other tiers of government. Some scholars have argued that the federal government should pay its debt from its own share of the Federation Account.

The fiscal relationship between the states and local governments is another matter of concern to policy-makers. Hitherto, states were known not to remit statutory allocations to local governments. At present, the formula for sharing from states to local governments is not clear. Also, the indices for sharing among various local governments within a state need to be properly defined to avoid controversies

Fiscal decentralization is crucial to our present attempt on democracy. Decentralization brings government closer to the people; therefore, fiscal decentralization will improve the quality of governance. Issues of transparency, accountability and comprehensiveness are better monitored at lower levels of government.

## CONCLUSION

Finally, I wish to welcome all of you to the University of Uyo, and I have no doubt that the issues raised will pose challenges as you debate the matter of revenue allocation in Nigeria. It is, therefore, my pleasure to declare the round table discussion open and to wish all of you fruitful deliberations.

Thank you and may God Almighty bless you all.