REVENUE MOBILISATION AND RESOURCE CONTROL IN NIGERIA: CHALLENGES FOR NATIONAL DEVELOPMENT

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Abstract

The primary objective of this paper is to consider the issues of revenue mobilisation and resource control in Nigeria. Revenue mobilisation and resource control have become crucial issues of immense interests to the three-tiers of government and the entire citizens of Nigeria. In most cases, these issues have become so controversial to the extent that they result in social and economic unrest and disorder in the Oil Producing States in particular and the entire country in general. In order to address the various issues associated with the subject matter; this paper adopts a priori approach of analyses. It observes that revenue mobilisation and resource control arc critical national issues that require urgent political and constitutional resolution. The problems in the Oil Producing States and the communities have to be properly addressed by government and the oil companies by providing basic amenities to the affected States and communities. In conclusion, government should consider practising the principles of true federalism for the sake of peaceful co-existence and national development.

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Introduction

Revenue mobilization and resource control have become crucial issues of immense interests to the three levels of government and the entire citizens of Nigeria. Any time these issues arc mentioned, the parties involved take the matter very seriously and would often quickly add the issue of revenue sharing or revenue allocation. The agitation for a fair and equitable revenue sharing formula keeps ranging on and in most cases, has degenerated into social and economic disorder in the oil-producing states and communities.

This paper shall define revenue mobilization and resource control. It shall discuss the goals of revenue mobilization. Under goals of revenue mobilization, the paper shall consider the functions and powers of Revenue Mobilization, Allocation and Fiscal Commission and the sources of government revenue to be mobilized. The implications of resource control and its challenges for National Development shall also he considered. The last section of the paper shall contain the summary and some recommendations for the benefit of policy makers.

Definitions and Prepositions

This paper defines revenue mobilization as the organized process of sourcing for funds from all identifiable statutory sources to accomplish the specified goals and objectives of government, livery government requires revenues to execute its responsibilities and objectives. Chapter II oi the 1999 Constitution states the fundamental objectives and directive principles of state policy. Section 13 of the Constitution emphasizes that it is "the duty and responsibility of all organs of government, and of all authorities and persons, exercising legislative, executive or judicial powers, to conform to, observe and apply the provisions of this chapter of this Constitution". The provisions of the chapter include the government and the people, political objectives, economic objectives, social objectives, educational objectives, foreign policy objectives, environmental objectives, directives on Nigerian Cultures, obligation of the mass media, national ethics and the duties of the citizen.

The 1999 Constitution is the primary document that governs and regulates the existence and relationships of the organs, units and activities in the present democratic governance. It recognizes a three-tier system of government, namely, the Federal, State and Local Governments. Each of these levels of government has been assigned constitutional responsibilities as contained in the exclusive list, concurrent list and residual list. In order to have peaceful co-existence, the Constitution recognizes the separation of powers among the various arms of government, that is, the legislature, executive and judiciary. The effective operation of separation of powers in governance is an essential element of a revenue mobilization system

(Tanzi, 2000).

The relevance of this in revenue mobilization is that the legislature should be a distinct arm of government preoccupied with legislative matters and constitutional provisions. The executive arm of government should be concerned with the implementation of policies and its efficient operation. The judiciary should be concerned with the interpretation of the laws and in the settling of disputes whenever there is a disagreement among the three arms of government. The issue of revenue mobilization is closely linked with allocation of resources. This has created many controversies in the Federation (Gelb & Associates, Alan, 1988; Glylfason, Tryggvi, & Gylfi, 1999). The oil-producing states are demanding ownership/resource control or at worse, a greater share of the oil revenue. Resource control is the right to preside over decisions concerning ownership, distribution and maintenance of resources of whatever kind in a particular area or geographical jurisdiction. The Third Summit of the 17 Southern Governments held in Benin City, Edo State Capital, defined resource control as "the practice of true federalism and natural law in which the federating units express their rights to primarily control the natural resources within their borders and make agreed contribution towards the maintenance of common services of the government at the centre". The key words of the definition are control, borders and contribution. The governors are looking at resource control from the practice of a true federalism. Federalism is a constitutional arrangement for the distribution of governmental authority by area in order to maximize freedom of expression of cultural, social, economic and political attributes. True federalism believes in the existence of resource control. It emphasizes and recognizes the rights of the component units or states in the federation to self-determination and the deployment of resources for own development.

Goals of Revenue Mobilisation

The primary goal of revenue mobilization is to actively harness and account for the various sources of revenue accruing and accruable to the coffers of a government, authority or person. The main sources of revenue into the Federation Account are from direct taxes, indirect taxes and mining activities. Direct taxes are taxes imposed on companies, such as company tax, back duty, penalties, petroleum profit tax, capital gain tax. and companies' pre-operation levy. The indirect taxes are taxes imposed on goods brought into the country. Export duties are levied on goods taken out of the country. In addition, excise duties are levied on goods produced within the country. The revenue from mining includes oil pipelines fees, rent on mineral licenses, royalty on oil and gas, NNPC earnings from direct sales, sales of crude oil for domestic consumption and penalty for gas flared.

The other goals of revenue mobilization are to ensure that sufficient funds are pooled together to enable government perform its constitutional responsibilities to the citizens. Section 162 (1) of the 1999 Constitution states that all revenue collected by the Government of the Federation, except the proceeds from the personal income tax of the personnel of the armed forces of the Federation, the Nigeria Police Force, the Ministry or Department of government charged with responsibility for Foreign Affairs and the residents of the Federal Capital Territory, Abuja shall be paid into a special account to be called "the Federation Account".

The national responsibility for revenue mobilization is entrusted to be Revenue Mobilization. Allocation and Fiscal Commission. Prior to the operation of the 1999 Constitution, the government of General Ibrahim B. Babangida enacted Decree No. 49 of 1989 to give the Commission a statutory existence even though he had earlier on inaugurated it on September 16, 1988. Similarly, Section 15J (1) of the 1999 Constitution provides for the existence of Revenue Mobilization, Allocation and Fiscal Commission. Due to the importance of the Commission to the Nation, President Olusegun Aremu Obasanjo inaugurated the new Commission on September 20, 1999 with the following constitutional functions and powers:

(i) Monitor the accruals to and disbursement of revenue from the Federation Account.
(1i) Review from time to time, the revenue allocation formulae and principles in operation to ensure conformity with changing realities, (iii) Advise the Federal, State and Local Governments on Fiscal efficiency and methods by which their revenue is to be increased.
(iv) Determine the remuneration appropriate to Political Office holders;
(v) Make recommendations and submit its findings by a report thereto to the government of the federation, of the states, as the case may be, regarding the formula for the distribution of the Federation Account and the Local Governments Account; and (vi) Discharge such other functions as may be

conferred on the Commission.

Due to the sensitive nature of revenue and resource sharing, the Commission was established to give it a federal outlook and equal representation. It is made up of a Chairman, one member from each of the thirty-six states of the federation and the Federal Capital Territory who are appointed by the President on the basis that they are persons of unquestionable integrity with requisite qualification and experience.

S.I62 (10) of the 1999 Constitution defines revenue as any income or return accruing to or derived by the Government of the Federation from any source and includes:

(a) Any return, however described, arising from the operation of any law;
(b) Any return, however described, arising from or in respect of any property held, by the government of the Federation;
(c) Any return by way of interest on loans and dividends in respect of shares or interest held by the Government of the Federation in any company or statutory body.

There are certain bodies and agencies that collect revenue on behalf of the Federal Government. They include the Board of Customs and Excise, the Federal Inland Revenue Service, the Central Bank and the Nigerian National Petroleum Corporation. The revenues from these bodies and agencies are to be paid into the Special Account, called the Federation Account. The Revenue Mobilization, Allocation and Fiscal Commission is to ensure that the revenues collected by these bodies and agencies are paid into the Federation Account. Hence, it is also their primary responsibility to monitor the accruals into the Federation Account. The revenue mobilized is to assist government to stimulate the agricultural sector by encouraging mechanized farming, providing storage facilities: electricity; boreholes if not pipe-borne water; mass transportation system; affordable housing schemes etc, in the rural areas. It is also to assist government in the development of the industrial sector of the economy. Apart from agriculture and industry, other areas include the provision of economic, social and political infrastructures for even development of the Nation,

Implications of Resource Control

The issue of revenue mobilization has become so controversial and politicized (Collier and Hoeffler, 2000; Karl, 1997; Ross, 2001). The crux of the matter is that every State wants an equal share of the revenue from crude oil regardless of their Stales of origin. This has resulted in various kinds of disturbances and crises in the Niger-Delta and the entire nation. The Oil Producing States have gone ahead to start pressing for the amendment of the Nigerian Constitution. They want a review of the ownership and control structure of the mineral resources as well as the sharing formula, obviously to their favour. This struggle brings to focus the various motives of each State of the Federation. The States where oil is obtained believes in the separation motive. On other hand, the States where oil is not obtained believes in the amalgamation motive. Here lies the problem.

The revenue allocation formula has often had Constitutional affiliations. Due to the prevailing circumstances during Raisman's Commission of 1958, the Commission recommended that the mineral producing regions should get a lion share of the revenue accruing to the government from mineral wealth. Raisman's revenue allocation formula was that 50% should be given to the region of mineral origin, 20% to the federal government and 30% to the Distributable Pool Account where the region of mineral origin shared as well as retained their export duty proceeds and personal income lax. It is important to note that the 1'hillipson Fiscal Commission of 1942 was the first to introduce the principle of derivation. Because of the benefit of derivation principle, all subsequent Fiscal Commissions kept on retaining it in their recommendations. The 1963 Constitution provided for 50% derivation without an onshore/offshore dichotomy. The principle was applied to mineral resources and to imports, exports and excise duties in consonance with the regional consumption of produce on which the duties were collected.

The importance of the derivation principle cannot be over emphasized in Nigeria's Fiscal Federalism. In a country like Nigeria, where the Federal Government has the statutory powers to collect revenue from natural resources located in the constituent States, the issue of derivation principle cannot be undermined for the sake of peaceful co-existence and national development. The situation would have been different if the State Governments were empowered to collect all revenue from their natural resources. In this case, the States would have been required to pay taxes to the Federal Government for the services it provides to them. The whole essence of the principle of derivation is for each State to receive from the revenue of the Federation, a proportion of the revenue accruing from the natural resources located in the Stale.

The present revenue formula has been characterized by mistrust in its application, politicization of the bases of measurement and introduction of unconstitutional variables. Decree No. 13 of 1970, which was backdated to 1969 allocated 50% of mining rents and royalties lo the Distributable Pool Account, *45%* to the Slate of derivation and 5% to the Federal Government. In 1971, the Federal Government came up with the issue of distinction between revenue from onshore and offshore, thereby taking 100% of the offshore revenue to the detriment of the Oil Producing States and the abandonment of the principle of derivation. In 1973, the Federal Government abolished the control and ownership of marketing boards by Stale Government. The 100% of export taxes accruable to State Governments were therefore abolished. The height of the changes was witnessed in 1979. The principle of derivation was dropped this year by the military. In its place, the Federal Government established a Special Account for mineral producing areas. From these analyses, it is obvious that the Federal Military Government made dramatic and substantial alterations between 1970 and "1979 to the revenue allocation formula. Section 162 (2) of the 1999 Constitution states that "the President, upon receipt of advice from the Revenue Mobilization, Allocation and Fiscal Constitution, shall table before the National Assembly, proposals for revenue allocation from the Federation Account, and in determining the formula, the National Assembly shall take into account, the allocation principles especially those of population, equality of states, internal revenue generation, land mass and terrain as well as population density; provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than 13% of the revenue accruing to the Federation Account directly from any natural resources." As regards the principle of derivation in the Constitution, the issue is quite clear. The lingering problem is more of implementation than clear-cut stipulation in the Constitution.

Abstracting from the stipulation of the Constitution, 13% is the minimum and legitimate first line charge on the Federation Account. What this means, is that a minimum of 13% of the revenue accruing from the national resources must be deducted and shared exclusively among the States where such national resources are exploited in proportion to the amount of revenue being generated from the respective States' boundaries.

Before the Supreme Court Judgment in April 2002, the formula was Federal Government 48.5%; State Governments 24%; Local Governments 20% and Special Funds 7.5%. However, with the abolition of the Special Funds categorization, it is now on the Federal Government to fund those items that were hitherto funded from the Special Funds classification directly from its share of the distributable revenue. The Federal Capital Territory cannot be treated as a State in the vertical allocation. The Federal Government has to seek other ways of funding NNPC joint venture cash calls and other major projects outside the vertical allocation from the Federation Account. The external debt service cannot be taken as a first line charge on the Federation Account, rather the principle of the borrower pays would need to apply. In view of the implications of the Supreme Court Judgment, the Revenue Mobilization, Allocation and Fiscal Commission have to come up with an acceptable revenue allocation formula that is acceptable to the generality of Nigerians. It has to bear in mind that the formula needs to be simple, measurable, accountable and realistic, and time bound. The Commission should recognize the issue of decentralization as it relates to the Federal Government in revenue sharing that was a complete reversal to the existing revenue allocation formula made by the past military regimes.

Before the emergence of this present democratic government, people from the Oil Producing States had continuously been agitating for the maintenance of the status quo during Raisman's Commission. There have been series of civil unrest, communal clashes and threats of political autonomy. This issue of revenue allocation has to be tackled promptly by the National Assembly in the interest of peace and national security. Matters should not be allowed to degenerate to a state of anarchy. The argument about mineral resources being a gift of nature for the overall development of the country and therefore, they should be owned by the Federal Government, is no doubt a major source of disenchantment to Fiscal Federalism.

The Challenges for National Development

Resource control and acceptable revenue sharing formula are critical issues that will continue to confront every successive government if they are not appropriately resolved through constitutional means. Although, political resolution may be okay on the short run, it will not resolve the contentious issues on the long run. For instance, the executive order by the President revising upwards the Federal share of the revenue from 48.5% to 56%; and leaving the 36 States of the Federation to only 44% of the nation's revenue has been described by the 36 State Governors and Members of the National Assembly as an unconstitutional act. The President, in his own opinion took the unilateral step pending when the Revenue Mobilization, Allocation and Fiscal Commission will submit a new revenue allocation formula for the approval of the National Assembly. The issue is that the landmark Supreme Court Judgment on resource control, as the onshore/offshore dispute is called, annulled the special funds deduction as a first charge on the Federation Account thereby leaving the 7.5% special funds in abeyance. Therefore, in July 2002, the President issued an extra-ordinary executive order to pool the funds into the Federal Government's share. The Governors in protest asked their Representatives to boycott the July 2002 Federation Account Allocation Committee (FAAC) meeting. In order to uphold the principles of federalism, issues of this nature should be clearly entrenched in the Constitution and implemented for the sake of national peace and co-existence.

The National Assembly should take the issue of resource control and revenue allocation formula seriously as a priority item in its deliberation anytime the bill is put forward for approval, Before the annulment of the 7.5% special funds in April 2002 Revenue Mobilization, Allocation and Fiscal Commission had, by August 2001 submitted a report to" the President on a new revenue allocation formula for the nation. The Commission recommended 41.3% to the Federal Government, 31% to the States and 16% to the Local Governments making a total of 88.3% of the total funds accruing to the Federation Account going to the three tiers of government. The balance of 13.7% was earmarked for special funds including a new 7% proposed for Basic Education and Skill Acquisition (BESA) scheme. In November 2001, the President forwarded a report to convert the report to a bill for deliberation while the House of Representatives dissented on the issue allowing the bill to fallow away in its archives. Then, in April 2002, the landmark Supreme Court Judgment changed the whole horizon and sent everyone back to the drawing board. Taking into consideration the Supreme Court Judgment, the Revenue Mobilization, Allocation and Fiscal Commission have re-submitted a new revenue allocation formula to the President. The proposal is 46.63% to the Federal Government, 33.00% to the State Governments and 20.37% to the Local Governments. The Chairman of the Commission said that it took the Commission one and a half years in collaboration with consultants, Nigerians, interested parties, tiers of government, and economic bodies such as ICAN to produce the formula. He cautioned that the National Assembly should not be influenced by subjective judgment in preparing and passing an Act for the new revenue allocation formula. The revenue formula should be analyzed, examined and subjected to further analyses before a resemblance of a formula can be attained. All these issues point to the fact that a revenue allocation formula should be acceptable to all the parties concerned. The executive order titled, "Allocation of Revenue (Federation Account, etc) modification order 2002" that adjusted the revenue allocation formula from 48.5% to 56% by the President at the wake of the Supreme Court Judgment of April 2002 sparked off a special resistance including the unusual alliance between the Governors and the House of Representatives. Appropriate laws should be passed to address the issues at stake. The youths and communities in the Oil Producing States are restless over the unresolved issues of resource control and acceptable revenue allocation formula for the country. Policy makers should not shy away from the problems existing in the Oil Producing States and Communities. The problems associated with oil and gas exploration include loss of farmland, polluted water for fishing and environmental degradation. The Government and the oil companies should intensify efforts in providing basic amenities as a matter of priority to the oil producing communities. The present ad-hoc approach adopted by government and the oil companies in providing amenities whenever there are crises in the areas will not solve the macro-problems of the oil producing communities. The Government and the oil companies should have a strategic plan of action for the people of the oil producing communities. At present, no strategic plan has been officially approved and made known to the people for the development of the areas. In particular, the welfare of the people as a thing of primary concern, provision of pipe-borne water, power and electricity, educational facilities, health and medical services, employment opportunities, the construction and maintenance of roads for the rural dwellers amongst others should be properly

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The issues of resource control and revenue allocation are so fundamental to national sovereignty and development (Dollar, 2000; Ross, 2001; Sachs and Warner, 1995; Sachs et al, 1999). The issues should be thoroughly debated and entrenched in the Nigerian Constitution. Leaving the issues to political resolution will cause more harm than good. At least, a long-term solution of this nature will put the matter to rest. Incessant agitations and destruction of oil pipelines by the communities in the Oil Producing Slates do not augur well for national sovereignty and development.

Summary and Recommendations

Revenue mobilization and resource control are critical national issues requiring urgent political and constitutional resolution. The problems at stake could be tackled by political resolution on the short run but a long-term resolution will require constitutional amendment and entrenchment. The motive of separation by the Oil Producing States and the motive of amalgamation by the Non-oil Producing States should be addressed within the principles of true federalism.

Policy makers should take immediate steps in considering a new revenue allocation formula that is fair, equitable, simple and acceptable to all the three tiers of government. The problems in (he Oil Producing States and Communities should be addressed by the Government and the oil companies, by providing basic amenities to the affected States and communities. Government should consider practising the principles of true federalism for the sake of peaceful co-existence and national' development.

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