

Democracy, Participation and Development in Nigeria's Fourth Republic 1999-2003

Omobolaji Olarinmoye

University of Oxford, ololade001@gmail.com

Abstract

Utilizing comparative-institutional methods of analysis this paper analyses the relationship between democracy and development through a study of IGFR in Nigeria's fourth republic. It established that a direct relationship exist between participation (democracy), social and economic development. The greater the level of participation of the lower tiers of government in revenue-allocation process in Nigeria, the greater the capacity of the institutions of IGFR to manage the stress brought about by increased participation, prevent gridlocks in financial decision-making (social development), increase the political credibility of the economic system and stimulate G.D.P growth.

Keywords

Participation, Growth, Development, Nigeria, IGR

Introduction

Central place is given, in the current dominant discourse on development espoused by the World Bank and International Monetary Fund and supported by bilateral and multilateral aid organization's (United Nations, United States Agency for International Development, British Department of International Development) development policies, to the couple Democracy-Development.

Simply put, the new development orthodoxy is that societies characterized by the features "democracy-development" are better as "democracies promote peace and prosperity because they generate economic growth and do not go to war with each other". Such a positive correlation between democracy and development has guided Nigeria's transition to democracy programme since 1987, a programme that despite various shifting of its guiding principles (annulment, change of time-tables, and disqualification of candidates) finally produced a democratically elected government in 1999.

This paper, which is essentially qualitative in nature, utilizing comparative-institutional methods of analysis, examines the dynamics of the democracy and development relationship during the first term of office of the newly installed democratic government led by President Olusegun Obasanjo.

It argues that a direct relationship exist between participation (democracy), social and economic development in Nigeria during the period under review. The greater the level of participation of the lower tiers of government in revenue-allocation process in Nigeria, the greater the capacity of the institutions of IGFR to manage the stress brought about by increased participation, prevent gridlocks in financial decision-mak-

ing (social development), increase the political credibility of the economic system and stimulate G.D.P growth.

Following Bradhan (1993), democracy is seen as having 3 aspects, 1) basic minimum civil and political rights engaged by citizens; 2) procedures of accountability in day to day administration under some over-arching constitutional rules of the game; 3) periodic exercises in electoral representativeness. Development on the other hand, is seen as "incorporating the general well-being of the population at large including some basic civil and political freedoms" (Bradhan 1993, 47). The paper is in two sections. The first deals with the theoretical debate on democracy and development and introduces the model to be used in this study. Section two, examines democracy and development through a focus on inter-governmental relations, specifically Inter-governmental fiscal relations, in Nigeria from 1999 to 2003.

Democracy and Development

The literature on democracy and development is by far dominated by studies that aim at finding a statistical correlation between some measure of democracy and some measure of a narrower concept of development. The problem with such empirical analysis is that they do not confirm conclusively or otherwise, a causal process. What the empirical studies have best been able to produce are "educated guesses" (Przeworski & Limongi 1993, 51).

In the words of William, Duncan et al, (2009, s30) "such evidence has established that, over the long term, there is a clear connection between political and economic change. However, there is limited hard evidence on the direction of causality, and the basic mechanisms through which politics af-

fects growth and vice versa”.

In other words, “quantitative analysis demonstrates a strong correlation between levels of income and aspects of good governance, such as market capitalism and liberal democracy” (William et al. 2009, s30). While this points to a clear association between political processes and growth over the long term, it does not prove a causal relationship, or settle the much debated question of whether political change generates economic development, or the other way around, or both. Furthermore, over the short to medium term variations in growth performance appear to be only loosely related to differences in governance.

Therefore, shifting attention from democracy to participation moves the debate on democracy and development from the above uninspiring conclusion of Przeworski and Limongi. Participation is a concept broader than democracy “as it includes the involvement of people not only in choosing political representatives but in been included and empowered in the process through which decisions are reached in the various layers of society (Rivera-Batiz 2002, 135)”.

Prominent among studies which adopt the “participation perspective” is the “comprehensive development paradigm” of John Stiglitz. For Stiglitz, “a truly comprehensive development framework must be based on the notion that both economic and social development are better served by a broadly participatory process (Stiglitz 2002, 164-167; Rivera-Batiz 2002, 139). He thus argues that

1) *Participatory processes are an essential ingredient of development transformation (important for both sustainable development and social development)*

2) *There are three key participatory*

processes: voice, openness and transparency and all operate in both public and corporate settings

3) *Giving people a voice and influence to affect the critical decisions affecting their lives is a pre-condition for successful development because development involves major systemic changes in societal institutions and individual mindsets that are embraced only if the recipients of such change have a voice in shaping the transformations,*

4) *For third world countries, the absence of voice is the norm.*

5) *Voice must be partnered by openness and transparency to encourage trust. Societies plagued by distrust suffer from gridlock that disrupt the development process*

6) *Greater transparency and openness in economic decision-making fosters “social development” defined as ability of a society to peacefully resolve conflicts and to address amicably, sources of common concern when interests differ*

7) *The ability to resolve differences is essential as the economic process itself can force countries to regress in terms of economic development. Stiglitz through the above statements establishes a clear relationship between participation and development. A true comprehensive development framework, Stiglitz concludes, must be based on the notion that both economic and social development are better served by broadly participatory processes (Rivera-Batiz 2002, 139).*

His statements as a whole returns democracy back to its classical conceptualiza-

tion where it was conceived of as a “process” and not as a procedure as in the current Schumpeter influenced reformist definitions of democracy that has proved very popular with economists due to its easy quantifiable and manipulable nature.

The “democracy as process paradigm” sees democracy as an on-going process influenced by past politico-institutional history of the democratizing society and whose survival depends on its consequence for the people, on how much it is able to better their material conditions in terms of literacy, security of life and property, better health, employment, food security, portable water and rural development, as well as ensure political stability (Osaghae, 1994).

Democracy and Development in Nigeria

Within the Nigerian federation, the structure charged with ensuring participation as conceptualized by Stiglitz is the inter-governmental relations system (after IGR). The inter-governmental relations system is for maintaining stability in interactions between levels of government through the resolution of conflicts whenever they arise (Bamidele, 1980). Intergovernmental relations is the “workhorse of any federal system: it is the privileged instrument by which the job-whatever the job-gets done (Cameron 2001, 121). The essence of IGR is to foster cooperation and regulate competition between the various tiers of government.

The mechanisms and structures of IGR can be categorized into *Intra-jurisdictional IGR*: arrangements that federalize the center, that bring the regions into the institutions of the central government (National Assembly in Nigeria) and *Inter-jurisdictional IGR*: which incorporates two categories of

interactions, relations between some or all of the regional units and central government; relations among some or all of the regional units themselves, in the absence of the central government.

The sub-component of the I.G.R system most suited for studying Democracy and Development (especially economic decision-making) is *Intergovernmental Fiscal Relation* (after IGFR). IGFR refers to the fiscal transactions and coordination arrangements among the various tiers of government in a federation. It is primarily concerned with the issues ranging from tax jurisdiction to the allocation of revenue accruing to common account and component units of a federation. It concerns the balancing of fiscal responsibilities with revenue collection process of the different levels of government within a federation.

Finance is the engine of the federal system with its proper functioning been a direct result of a stable system of revenue allocation between the various levels of government regulated by the IGFR system. Thus participation within Nigeria’s IGFR will therefore be a question of the degree to which openness; transparency and voice characterize the revenue-allocation process of the Nigerian system and social development on its own part will be a reflection of the extent to which the institutions of IGFR, (judiciary, legislature, Revenue Mobilization Allocation and Fiscal Commission) are able to reduce or otherwise, conflicts over sharing of federally collected revenue and its utilization for economic development.

In other words, the functioning of the IGFR system provides a clear picture of the relationship between participation, social development and economic development. The optimal functioning of the IGFR system in the form of its producing equitable allo-

cation and utilization of resources for economic growth implies that:

1) *The various actors within the system are interacting optimally with each other, that the revenue allocation process is characterized by openness, transparency and voice (participation),*

2) *That the mediating institutions of IGFR are working optimally to resolve conflicts engendered by the optimal participation of all tiers of government in revenue-allocation decision-making (social development)*

3) *That the optimal performance of the participatory and social development components of IGFR creates a consensus over policy and leads to the fashioning of a policy framework that guides the generation, allocation and utilization of societal resources at all levels of government,*

4) *The presence of a stable policy framework operative at all levels of government and the product of consensus produced through participation by all relevant actors produces/enhances the "political credibility" of the regime concerned (Borner, Brunetti & Weder, 1995)*

5) *A politically credible regime is one that enforces its rules and is bound by them. A stable policy framework based on consensus ensures that policies are enforceable by the state and enforceable on the state. Such a framework produces stability in the economic process, introduces predictability and encourages G.D.P growth (Hayek, 1945; Tiebout, 1956; Qian & Weingast, 1997).*

Features of pre-1999 IGFR System in Nigeria

Imbalance in Tax-raising Powers

Pre- 1999 Nigerian fiscal system was characterized by a major imbalance in the assignment of tax raising powers between its units. Such weighing translated into greater concentration of tax raising powers in the hands of the federal government and the dependence of the lower governments on federal government sources of funding leading to frustration and tensions in inter-governmental relations between the units of the federation.

Concentration Problem

The pre-1999 IGFR system was characterized by a situation where the lower levels of government failed to fully share in the general growth of the total government expenditure. The concentration problem was a major legacy of the first period of military rule (1966-1979) when the military government took a greater share of the responsibility for new and expanding types of government expenditure such as the National Youth Service Corps, steel development and petrochemicals and ensured the shifting of responsibilities for particular services from the state governments to the federal government such as radio and television services.

Concentration was consolidated with the loss by states of their tax raising powers through the introduction in 1975 of a uniform personal income tax code, the transferring of export taxes including sales tax on export crops from states to the federal government and the assigning of revenue from petroleum profit tax and mining rents to the federal government alone the concentration of expenditure and tax powers in the hands of the federal government has placed it in a unique position to manipulate revenue-allo-

cation formulas- that is suppose to balance revenue flows between tiers of government- to its own advantage.

Vertical Fiscal Imbalance

The pre-1999 Nigerian revenue sharing system was characterized by large vertical imbalances in favor of the federal government resulting in a massive and frustrating dependence of the sub-national units of the Nigerian state on funding from the Federation Account given that they can only fund 10-20% of their expenditures from internally generated revenue. The vertical inequality in sharing centrally raised revenue was a function of the fact that the military exercised a veto on fiscal matter.

Horizontal Fiscal Balance

The pre-1999 IGFR was characterized by massive horizontal fiscal imbalance as the principles that guided the sharing of revenue from the federation account between states and between local governments, equality, population, and mass and terrain, social development factors and internal revenue effort increased fiscal imbalance between and within the lower tiers of government (Akindele & Olaopa, 2002; Anyawu, 1995; Ehtishan & Raju, 2003; Ekpo, 2004; Mbanefoh, 1986, 1989).

The impact of the nature the pre-1999 IGFR system on political credibility and economic policy (decision-making on generation, allocation and utilization of resources) in Nigeria was negative. Though the military created a vast IGR structure, the imposing of the command, hierarchy and order norms of the military on the federal system of government denied states autonomy and voluntary participation in revenue allocation decision-making process. The "give and take" that ought to characterize decision-making in a federal system were stifled.

Social development in the form of structures of IGFR been put to test in resolving conflicts generated by interactions between levels of government in decision-making was low. Thus the economic policies that came out of the allocating process were central impositions. In most cases they were implemented by military fiat and did not engender confidence in economic actors as the policies were subject to arbitrary changes based on the whims of the rulers of the state.

For example, the failures of structural adjustment programme, transition programme, local government reforms, civil service reforms, privatization reforms, banking reforms, transport and health sector reforms. The result was that the state within the period was a "soft state" unable to neither enforce its own rules nor have such rules binding on itself with low concomitant economic growth.

Constitutional Framework of Post-1999 IGFR

The provisions guiding IGFR in the 1999 constitution of the federal republic of Nigeria introduced a new regime in which the dominance of the federal government/executive within the system is checked through the restoration of the right to decide financial jurisdiction to the legislature and the strengthening of the Revenue Mobilization Allocation and Fiscal Commission and the Judiciary. The allocation of revenue between the federal state and local governments under the 1999 constitution is contained in sections 162-168 and items A and D of part two of the second schedule. Section 162(1) of the 1999 constitution provides:

For a common pool of financial revenue the federation Account into which

is paid all monies to be distributed among the federal, states and local governments councils in each state on such terms as may be fixed by the National Assembly.

Section 162(2) provides that:

The President upon receipt of advice from the RMAFC, 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, terrain, as well as population density. Provided that the principles 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 other resource

The two clauses establish the key role to be played by the legislature, the Revenue Mobilization Allocation and Fiscal Commission (after) RMAFC and the principle of derivation in the post-1999 IGFR. It fundamentally altered the structure of revenue allocation as it enforced the transfer of derivation principle as a component of inter-tier revenue allocation from vertical revenue formula system to Horizontal revenue formula system with fundamental consequences for the Nigerian IGFR system.

Section 81(1) of the 1999 constitution gave responsibility for budget proposal to the executive while authorizing legislative input into the process through section 80(4) as emphasized by the clause” except in the manner prescribed by the National Assembly”(Aiyede& Isumonah 2002, 12). Section 82 provides that in a situation of deadlock between the executive and legisla-

ture over the budget, the executive can:

Spend from the consolidated revenue fund for a period not exceeding six months or until appropriation act is passed. The federal government is however not expected to withdraw from the consolidated revenue an amount more than the provision of the appropriation act for the corresponding period of the immediate past fiscal year.

The allocation of expenditure responsibilities among the component units of the federation is listed in section four of the second schedule of the 1999 constitution. Three categories of legislative functions are highlighted, the first is the exclusive list with sixty-eight functions limited strictly to the federal government, the second is the concurrent list with eight functions on which the states can legislate and the third is the residual list which consists of functions neither specifically mentioned nor included in the exclusive and concurrent lists.

The 4th schedule spells out the functions of the local government which are grouped in two categories, a) functions exclusive to the local government alone and b) functions performed concurrently with the state government (Udeh, 2002; Mbanefoh & Egwaihkhide, 1998).

Post-1999 IGFR: Economic Framework

The functioning of the new IGFR structure was to be guided by an economic framework introduced by the new democratic regime of President Olusegun Obasanjo. The new economic framework, know as National Economic Empowerment and Development Strategy NEEDs “ is a medium term economic strategy aimed at providing a frame-

work through which Nigeria will attain economic prosperity, self-sufficiency as well as meet the Millennium Development Goals (MDGs). NEEDS rests on four main pillars: reforming government and institutions, developing the private sector, implementing a social charter for the people, and re-orienting values (Okpanachi 2010, 3).

In achieving its goal of reviving Nigeria's comatose economy, NEEDS sought to entrench fiscal discipline and effective management of public finances and macroeconomic environment at all levels of government through (amongst others) the following policy instruments:

1) *The publication of the monthly revenue allocations to sub-national governments;*

2) *The establishment of the "Due Process" mechanism to eliminate "fat" from government procurements;*

3) *The adoption of an oil price-based fiscal rule in the budget aimed at saving, rather than squandering, oil revenue "windfall" to buffer against future oil price shocks and reduce macroeconomic volatility; and*

4) *The establishment of the Nigeria Extractive Industries Transparency Initiative (NEITI) (Okpanachi, 2010:4; MEA, 2004).*

The crucial issue concerning the above economic framework was that though conceived of centrally, it was subjected to extensive consultations at all levels of government and enshrined in the NEEDS (NPC, 2004) document, the economic blueprint of the Nigerian state agreed to by all relevant actors within the IGFR system. As pointed out by Okpanachi (2010, 4), while most of these reforms impose duties on only the

federal government and its agencies, others also impose obligations on the state and local governments (SLGs) and/or elicit cooperation from them for successful implementation. Examples of reforms which imposed obligations of states and local governments include:

1) *The federal government's anti-corruption crusade through the Independent Corrupt Practices and other Related Offences Commission (after ICPC) and the Economic and Financial Crimes Commission (after EFCC);*

2) *The benchmarking of states' progress in meeting the goals of NEEDS by the National Population Commission (NPC);*

3) *The enforcement of a stringent sets of criteria for borrowing, a sort of "rules-based controls" (Landon, 2003), aimed at curtailing massive debt build up in the federation through mandatory federal government guarantee for all external loans in the country; and*

4) *The enactment of the Fiscal Responsibility Act (FRA) (Okpanach 2010, 4).*

The function of the IGFR system during 1999 and 2003 was thus to ensure revenue was shared between the tiers of government in such a way as to support the implementation of the economic blueprint.

Participation and Social Development in Nigeria's IGFR Post -1999

The highlight of the period 1999-2003 was the increased assertiveness of long dormant and weak components of IGFR system

in Nigeria such as the RMAFC, the legislature, the Judiciary and the sub-national units (States and Local governments) with a consequent strengthening of democratic governance in Nigeria as a culture of consultation and negotiation, the hallmark of IGR, long absent in Nigeria's IGFR relations with consequence for the nature of governance (authoritarianism) is slowly taking root.

The RMAFC became active during the period under review as it rejected on many occasions the interference of the executive (President & ministry of finance) on the formula for revenue sharing. The commission has insisted on the proper implementation of the constitutional provisions guiding revenue allocation. Thus in January 2004 when the federal ministry of finance gave the federal government a share of 54.68% and a 2% grant to the states from the federation account, the commission disagreed with the formula insisting that it did not comply with section 164(1) of the constitution which stipulated that "the federation may make grants to a state to supplement the revenue of that state in such sum and subject to such terms and conditions as may be prescribed by the National Assembly" (Ekpo, 2004).

The legislature on its own part has exercised vigorously its powers of budget implementation oversight such that the budgeting process was repeatedly stalled during the period by the legislature to force the executive to abide by the provisions of the constitution guiding IGFR in Nigeria (Aiyede & Isumonah, 2002).

Federally collected revenue increased by more than a factor of three between 1999 and 2003 as it moved from 520.2 billion to 1731.8 billion due to rapid increase in crude oil prices on the world market and a significant depreciation of the Naira exchange rate value that meant more revenue from every

dollar earned from sale of crude oil (Egwai-khide, 2004). Revenue from value added tax also increased dramatically within the period 1999-2003 from 91.8 billion in 1998 to 108.6 billion in 2003.

But within the period, The Nigerian IGFR system continued to be characterized by a centralization of revenue as with the exception of value added tax and some minor federal revenues (revenue collected from personal income of personnel of the armed services, the Nigerian Police, ministry of Foreign Affairs and residents of the Federal Capital, Abuja) all federally collected taxes were paid into the Federation Account, which was then shared by formula among the federal, state and local governments.

Revenue in the Federation Account was shared between the tiers of government on the ratio federal government 48.5%, state governments 24% and local governments 20%. From the above figures the federal government controlled 56% of the revenue shared from the Federation Account. In reality it actually controlled more than 56% as it made huge deductions from the federation Account for "First Line charges" (joint venture cash calls, NNPC priority projects, national priority projects and external debt service payments) as shown in the figure below:

Figure 1: Expected and Distributed Revenue 1996-2004

Year	Amount (billions)	
	Earmarked	Distributed
1996	545	179
1997	562.3	208
1998	405.8	257.3
1999	930.6	446.5
2000	1859.9	1051.6
2001	2173.7	1289.3
2002	1648.2	1692.8

Source: Egwaikhide, 2004

The inequity associated with the deductions for first line charges from revenue in Federation Account was recognized by the federal government when the president in his budget address to the joint session of the National Assembly on Wednesday 24 November 1999 stated (as it concerned debt servicing specifically) that:

The present arrangement whereby external debt is treated as first line charge on oil revenue breeds inequity as states that have not borrowed do not get their fair share of federation account revenue. In order to introduce fairness, treatment of the provisions of external debt service as a first line charge will be reviewed. Deductions at source should be made from statutory allocations of debtor states.

The resultant loss of funds by states through deductions of first line charges on oil revenue therefore continued, in the democratic period, the pre-democratic (military) trend of excessive fiscal centralization and vertical inequity that characterized Nigeria's IGFR.

Massive fiscal imbalance continued to characterize horizontal revenue allocation between states and between local governments. While internally generated revenue of states and local governments increased from 31.4 billion in 1999 to 90 billion in 2003 it was barely able to cover 11% of states expenditure between 2000 and 2003. Similar figures for local governments fell from 15.2% to 7% over the same period leading to increased State and local government dependence on transfers from Federation account.

Horizontal fiscal imbalances at the level of the local governments increased with the

deduction from source, from the allocations of local governments, by the federal government, of salaries of primary school teachers though primary education was a state responsibility under the 1999 constitution.

The action was justified as having been prompted by past experiences where salaries of primary school teachers had been left unpaid for months on end by state governments leading to the near collapse of primary education nationwide. The corollary was that such deductions left local governments with little revenue to carry out their statutory functions creating the phenomenon of "Zero Allocation".

The combined debilitating impact of vertical and horizontal fiscal imbalance within the IGFR system forced the sub-national units of the system to complain against central government domination of the system. The agitations were mostly championed by the oil-producing states that called for increased control by resource producing states of proceeds of oil/mineral sales.

Such demands were buoyed by the provisions of the 1999 constitution, especially sections 162(2) that provided for 13% of revenue from oil proceeds be allocated to oil-producing states under the principle of derivation. The constitutional provision reinstated derivation as a principle of horizontal fiscal allocation from its previous place as a component of vertical revenue allocation (special funds) formula, where it had stagnated over the years.

The drama started when the federal government on assuming power in may 1999, refused or ignored the constitutional provisions, sections 162(2) and 313 which made it mandatory for 13% derivation principle

be applied to revenue shared from the Federation Account. For ten months the president took no decision on the issue and when he finally decided to do so, he chose January 2000 as the commencement date for implementation of the provisions rather than May 29 1999 as stipulated by the constitution. Therefore oil-producing states were denied their 13% statutory allocations from the Federation Account on the basis of derivation principle from May 29 1999-december 31st 1999.

The situation worsened with the application of the on-shore/off-shore dichotomy to determining the ratio of the 13% derivation principle to be paid to the oil-producing states by the federal government. The federal government based its decision to apply the dichotomy on section 44(3) of the 1999 constitution, which states that: notwithstanding the foregoing provision of this section, the entire property in and control of all minerals, mineral oils and natural gas in, under and upon any land in Nigeria or in under or upon the territorial waters and the Exclusive Economic Zone of Nigeria shall vest in the government of the federation and shall be managed in such manner as might be prescribed by the National Assembly.

The federal government interpreted the provision to mean that revenue derivable from offshore production of oil cannot be credited to the states to which that offshore belonged. Using offshore revenue (registration of grants) Act, 1971 Cap. 366 LFN 1990 as a guide, the federal government therefore split oil revenue into 60:40 as on-shore/off-shore revenue and proceeded to base payment of the minimum 13% derivation on only the 60% portion, thus paying only 7.8% of oil revenue as derivation instead of the minimum 13% stipulated by the consti-

tution from 1st of January 2000. The oil producing states protested vigorously against their double marginalization on the issue of derivation by the federal government creating tensions within the IGFR system.

In sum total the vicious state of horizontal and vertical imbalances discussed above pushed governors of Southern states, the area contributing the majority of revenue to the Federation Account, to demand for changes in revenue allocation system and proper implementation of the 13% derivation principle. They insisted that contrary to the constitutional provisions, the federal government does not own any natural resources anywhere in Nigeria and the so-called offshore oil belonged to the littoral states in whose continental shelf and exclusive economic zone, the oil was found.

In short they demanded for resource control, that is the power and right of a community or state to raise funds by way of tax on persons, matters, services and material within its territory; the exclusive right to the ownership and control of resources, both natural and created within its territory; the right to custom duties on goods destined for its territory and excise duties on goods manufactured in its territory (Ojo 2002, 15).

Finally and most crucially, the southern governors linked resource control to a fundamental restructuring of the Nigerian state along the lines of confederal or consociational democracy. In other words, they demanded for more state-local government participation in the IGFR system in Nigeria.

The position of the Southern governors for resource control as defined above was not supported by the northern governors

who saw it as a recipe for chaos and political instability as oil-states would, on becoming financially buoyant, be able to hold the Nigerian state to ransom and eventually break the federation. Also the reaction of the president was hostile. He pointed out that similar demands had been at the root of the Biafran war and by so implying that the apostles of resource control were treasonable felons and enemies of progress.

The agitations for resource control overheated the polity and the federal government, as a solution to the crisis instituted a suit at the Supreme Court over the issue. The federal government “implored the Supreme Court to interpret the constitution of the federal republic of Nigeria and determine the seaward boundary of the littoral states” (Egwaikhide 2004). In other words, clarify whether the littoral states were entitled to the 13% derivation applicable to the revenue from natural sources of Nigeria’s territorial waters, continental shelf and Exclusive Economic Zone

The resulting judgment of the Supreme Court of April 5, 2002 fundamentally restructured Nigeria’s IGFR/ IGR system and can be regarded as the true dividend of democracy for the Nigeria people. The court ruled that the littoral states could not lay claim to the revenue collected from natural sources in Nigeria’s territorial waters, continental shelf and exclusive economic zones meaning that such revenue should be paid into the federation account and derivation could not apply to such revenue (Amadi, 2005: 5; Aghalino, 2010).

On the issue of natural gas been a resource and so revenue earned from it should be paid into the federation account and

derivation be applicable to such revenue, the court ruled that natural gas was a resource and as a result revenue collected from it qualified to the application of 13% derivation for the benefit of any state from which it was derived. On first line charges deducted from receipts of oil revenue, the court ruled that such was unconstitutional as it was according to section 314 of the 1999 constitution the responsibility of the government, federal or state to pay its debts.

On deductions from the revenue allocated to the local governments from the federation account in respect of primary education by the federal government, the court ruled that the functions of a local governments were spelled out in the fourth schedule of the 1999 constitution and primary education was not part of such and so it was not appropriate for the federal government to make such deductions without the authorization of the state governments. On the allocation of 1.0 percent of the revenue in the federation account to the federal capital territory, the court ruled that the relevant provisions of the 1999 constitution did not support such a practice, the beneficiaries of the federation account been the federal government, the state governments and the local governments.

On the all important issue of 13% as the minimum figure for calculating the derivation principle in respect of the revenue in the federation account, the court ruled that the use of 13% had no legal basis in the 1999 constitution which provided for a minimum of 13% and “this use of not prescribed by the federal lawmakers and approved by the president”. So, the minimum 13% that was in use was based on the rule of the thumb and was discretionary.

On the issues of accountability in the operation of the federation account by the federal government, the trustee, the court ruled that whenever the beneficiaries of the federation account ask the federal government to give account, it must do so. Finally the court ruled as unconstitutional the act of the federal government that denied Delta state government payment of its legitimate share of the proceeds from capital gains tax and stamp duties.

The decision of the Supreme Court ushered in a new era in IGFR in Nigeria as the equity promoted by and required for the proper functioning of a federal system was re-installed and the various components that had for over 30 years found themselves stifled and dormant due to overt centralization of financial and political powers in the federal government found themselves been a new lease of life with the resultant effect on IGR within the Nigeria state been electrifying.

What happened was that the various stresses and strains generated by the free participation of the formerly suppressed lower tiers of government in economic decision making, in the process of generating, allocating and utilizing of federally collected revenue pushed formerly dormant institution of IGFR like the judiciary, the legislature and the RMAFC into performing their assigned roles of mediating and regulating relations between government.

Conclusion

Within the period under review democracy conceived in terms of participation clearly had a positive impact of social and

economic development in Nigeria. Participation of all tiers of government in IGFR engendered by the new IGFR regime instituted by the 1999 constitution created a lot of strains and tensions that had to be confronted and managed by the institutions of IGFR such as the legislature, the judiciary and the RMAFC.

The success they recorded in resolving stresses within the IGFR system translated into social development the smooth functioning of the IGFR system and the creation of a "credible political-economy system capable of underpinning the implementation of the economic reforms necessary for economic development and the emergence of a stable fiscal system for the Nigerian state. It is such a system that encouraged both foreign and internal investments in the various sectors of the economy.

The supreme court judgment established firmly and clearly the system of financial relations between the various tiers of government, putting in place a political-economic structure (guided by the NEED's document) that could act as a credible basis for economic development at all levels of the state. In the words of Triechel (2010:17) "macroeconomic and structural reforms have instilled greater confidence amongst the business community and boosted foreign direct investment and remittances from Nigerians living abroad, thus raising aggregate demand and private investment".

The period following the Supreme Court Judgment of April 2000 and the installation of a politically credible economic system characterized by increased participation of state-local governments in IGFR, witnessed a dramatic improvement in all the economic

indices of the Nigerian state as the following figures show:

GDP growth rate was 0.40 percent, rising to 5.40 percent in 2000 and 10.23 percent in 2003.

Figure 2: Sector Aggregates

1999-2003 Source: Ayagi, 2004

In line with the growth rate in GDP,

No.	Sector	1999 (%)	2000 (%)	2001(%)	2002 (%)	2003(%)
		1	Oil ¹	-7.50	11.10	
2	Non-oil ²	4.40	2.90	4.30	7.96	4.44
3	Agriculture ³		2.90	3.90	4.30	7.00
4	Manufacturing ⁴	3.44	3.44	6.99	10.07	5.56
5	Transport ⁵	103,000 ⁶	156, 000	196,000	290,000	340,000
6	Communication ⁷	5.50	10.40	67	176.60	74.20
7	Hotel/Restaurant ⁸	12,914 ⁹	27,496		30,699	37,528
8	Hotel/Restaurant ¹⁰	71 ¹¹				82.5

The overall GDP growth rates under the Obasanjo Administration during the period under review was higher in all the years 1999 to 2003 than was the case under the immediate past regimes. In 1999, the real

growth in disposable income was higher post-1999 buoyed by the relative growth rate in GDP the increase in wages and pensions provided by the Obasanjo Administration. The higher incomes stimulated

¹ The oil sector, which had a negative rate of -7.50 percent in 1999 improved to 11.10 percent in 2000 and 23.90 percent in 2003

² Performance in the Non-Oil Sector experienced improved over what it was before 1999 with 4.40 percent in 1999, 2.90 percent in 2000, 4.30 percent in 2001, 7.96 percent in 2002 and 4.44 percent in 2003

³ The agricultural sector, performed better post 1999 than pre-1999 with a growth rate of 2.90 percent in 2000, rose to 3.90 percent in 2001, 4.30 percent in 2002 and 7.00 percent in 2003

⁴ The growth rate in the manufacturing sector was 3.44 percent in both 1999 and 2000. However, it rose to 6.99 and 10.07 percent in 2001 and 2002, respectively. In 2003, the growth rate declined to 5.66 percent. Capacity utilization in the manufacturing sector, which was 28 percent in 1999, had reached at least 60 percent by the end of 2003

⁵ In 1999, 103,000 motor vehicles were newly registered in the country. In 2000, the figure rose by 51 percent to 156,000 and further rose by 26 percent to 196,000 in 2001. In 2002 and 2003 the figures for newly registered vehicles rose to 290,000 (i.e., 48 percent) and to 340,000 (i.e., 17percent). For the overall period of 1999 to 2003, the rate of growth of the newly registered vehicles was 230 percent.

⁶ Vehicles newly registered

⁷ The growth rate of telephone and cell phone was 5.50 percent in 1999; the growth rate rose to 10.40 percent in 2000 and to 67 percent in 2001; it rose phenomenally by 176.60 percent in 2002 and by 74.20 percent in 2003

⁸ The number of hotel beds was 12,914 in 1999; it rose to 27,496 (a rise of 113 percent) in 2000; the number rose by 11 percent to 30,699 in 2002; and rose by 22 percent to 37,528 in 2003

⁹ Hotel beds

¹⁰ The room occupancy rate rose from 71 percent in 1999 to 82.5 percent in 2003. The number of visiting foreign nationals to Nigeria was 1,392 in 1999 and rose to 3,897 (a rise of 180 percent) by 2003

¹¹ Room occupancy rate

demand and exerted a salutary impact on economic growth. The figures show growth rates of 0.20 percent in 1999, 4.30 percent in 2000, 4.60 percent in 2001 and 4.40 percent in 2003.¹²

Similarly, the exchange rate for the naira witnessed an upward progression between 1999 and 2003. In 1999, N 96.10 exchange for one US Dollar; it was ₦ 86.00 to the US Dollar in 1998; and ₦ 22.00 to the US Dollar in 1994 representing a devaluation of the Naira of over 336 percent or a devaluation of about 70 percent per annum. The figures for the subsequent years of 2000, 2001, 2002 and 2003 were ₦101.70, ₦ 111.70, ₦ 118.56 and ₦ 129.30 per US Dollar, respectively. Thus the years 1999 to 2003 witnessed a total devaluation of 34.5 percent for the 5 years or an average devaluation 6.9 percent per annum – with a subsequent reduction of the instability in the value of the national currency to only 10 percent of what it was pre-1999.

It must be noted that democracy and development is a process and a continuous one. It is achieved only when the needs of the people are satisfied. Development as shown above requires democracy because of the openness, transparency and voice generated by participation but democracy (participation) to be sustained requires a stable and responsive economy.

A crucial point emphasized by Stiglitz model is that it is possible for the economic policies of a government to impact negatively on voice, transparency and openness. In such a situation, democracy especially participation defined as openness, voice and transparency, is the principal casualty. But such a situation, in an ironical fashion, simply confirms the equation proposed by

this paper that Democracy (participation) = Social Development=Political Credibility=Economic Development.

¹² The figure of 10.23 percent growth rate in GDP in 2003 conforms to the figure also issued by the International Monetary Fund (IMF) earlier this year (2004)

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