Fiscal Federalism and Imbalance in Revenue Allocation in Nigeria: Implications for Socio-economic Development

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Abstract: Imbalances in Nigeria’s federal arrangement have been a constant source of conflict in Nigeria’s politics. Fundamentally, the federal structure was adopted to accommodate Nigeria’s multi-ethnic nationalities. The dissatisfaction among the federating units underlies an unending search for an acceptable revenue sharing formula contention. The problem identified is that the current formula gives more revenue to the Federal government rather than to the State and Local Governments that have greater base and responsibilities for the provision of social welfare to the people. The arrangement stifles the sub national governments’ ability to provide social welfare and accomplish other statutory responsibilities, aggravates crises of relative deprivation, accentuates corruption and intensifies ethnic politics. Being ex-post facto, the paper uses qualitative expository analysis to examine the nature and character of Nigeria’s fiscal relations and the implications for socio-economic development. The finding is that Nigeria, being a consumptive mono economy, is overly susceptible to external shocks. The country therefore, needs to allocate more revenue to the sub-national governments in order to encourage an integrative, bottom-up, people-oriented development. It recommends that the vertical revenue allocation formula be restructured in the following proportions: federal 35%; state 40%; local government 25%. Moreover, derivation principle should be given primacy in horizontal allocation formula to encourage competition among the tiers of government. The economy should be diversified to reduce over-dependence on federal allocation while the fight against corruption should be sustained.

Keywords: Federal, Federalism, Fiscal, Fiscal Federalism, Fiscal Relations and Revenue Allocation

1. Introduction

The history of Nigeria’s federalism has been associated with several challenges bothering on ethnicity, boundary disputes, militancy, terrorism, census and revenue allocation controversies. The issues of fiscal federalism and revenue allocation have been a recurring decimal that seems to defy compromise. Since 1946, several committees had been set up by both the colonial Administration and successive Nigerian governments with a view to finding enduring solutions but to no avail. Indeed, various revenue sharing principles had been recommended and applied at various epochs but none endured. The principles included basic needs, minimum material standards, balanced development, derivation, equality of access to development opportunities, independent revenue/tax effort, absorptive capacity, fiscal efficiency, minimum responsibility of government, population, social development factor, equality of states, landmass and terrain, internal revenue generation effort etc. Besides, some schools of thoughts have emerged in response to the situation. While the pro-federal school asserts that the federal government should have greater percentage of the federally generated revenue since its responsibilities are broad and cuts across state boundaries, the pro-state proponents contend that real development takes bottom-up dimension and as such the state and local governments should have more of the resources and responsibilities to ensure grassroots development. The pro-state resource control school, which advocates considerable state control of revenue derived from resources on each state,
contends that fiscal autonomy is the hallmark of true federalism. The tensions generated by fiscal relations and imbalance debates have threatened the corporate existence of the country and spurred mutual suspicion among the ethnic nationalities and groups. Since the inception of the Buhari Administration, different socio-cultural groups and nationalities have stepped up the agitation and advocacy for either true federalism or self-determination. Although the pattern of restructuring is not yet clear, there is a consensus view that the nature and character of the country’s fiscal relation should be revised. The restructuring committee set up by Buhari’s ruling Party is not unconnected with the rising agitation and pressure to balance the structure. It is to be noted that by the present arrangement, the Hausa/Fulani of the North by having more states and local governments, get greater share of oil revenue that comes from the South-South region. This paper examines fiscal federalism and revenue sharing formula in Nigeria and the implications for socio-economic development.

2. Method

The research methodology for the work is expository qualitative analytic approach. The paper reviewed and analyzed the content of relevant documents and data on fiscal federalism and revenue allocation in Nigeria from the colonial era to the present day. The reliance on official documentaries, research findings, journals and books makes the work credible.

2.1. Federalism and Fiscal Federalism: A Theoretical Review

Understanding federalism as a larger concept will facilitate the appreciation of fiscal federalism. This is because federalism is the operational framework within which fiscal federalism is located. Federalism is viewed as a constitutional arrangement which divides law-making powers and functions of state between two levels of government which are co-ordinate in status [1]. The author posited that each tier of government should have adequate resources to perform its role without making appeal to other tiers for financial assistance. It further stated categorically that if state authorities find out that the services allocated to them are too costly for them to carry out and they choose to call upon the federal government for grants and subsidies, then the state authorities are no longer coordinate to it [1].

The implication is that meaningful federalism ceases to exist whenever there is financial subordination no matter how articulate the constitutional form may be preserved. Therefore, both state and federal authorities in a federation shall be given powers in the constitution that enable each of them to have access and control its own financial resource. Each of the tiers must have power to tax and to borrow to finance its own operation. Federalism therefore, suggests a political structure where there are at least two levels of government that have constitutionally assigned responsibilities in a manner that they work independently but cooperatively. The term simply describes a system of government in which sovereignty is legally divided between a central governing authority and components units labeled variously as state, region, local government, canton, county, commune, etc. Federalism is also conceptualized as an arrangement whereby powers within a multi-national state are shared between federal and component units in such a way that each unit including the central authority exists as a government, separately and independently from others, operating directly on persons and properties within its territorial area or jurisdiction and with a will of its own apparatus and appurtenance for the conduct of public affairs and authority in some matter exclusive of others [2]. Federalism is that form of government where the component units of a political organization participate in sharing powers and functions in cooperative manner through the combine forces of ethnic pluralism and cultural diversity, among others that tend to pull their people apart [3]. Federal arrangements are characterized by sovereignty which is shared between central and other levels of government [9]. The federal government is supreme with overriding and sacrosanct laws and cannot be taxed by states and local governments. However, sub-national units can make some decisions based on local interests, differences and peculiarities without regard to national preference. It checks excessive concentration of power on the federal government, is good for managing large countries, promotes competition among jurisdictions and makes secession difficult. It is flexible, innovative, participative, autonomous, permits diversity in policies, and protects powerful local interests. Conversely, it is inefficient, encourages lack of accountability, can be obstructive, weakens nationalism, and promotes parochialism [3].

Federalism emerges in two broad ways both of which have epochal implications for development. First is the coming together or aggregative system and the second is the disintegrative or holding-together system. The first is voluntary and often a response to certain socio-economic or political requirements or challenges facing the federating units at a particular historical era. Some have classified this category as collaborative or cooperative federalism. The United State of America is a good example having evolved out of consensus among federating states. The aggregative or coming together model is where federating state is constituted through a compact or bargain that brings together previously independent entities as experienced in Switzerland and USA. Conversely, the holding-together or disintegrative system is one that evolves essentially due to the action of an external influence often represented by a colonizing authority. This brand is classified as competitive federalism. Nigeria, being constituted of disparate principalities and nationalities, is a typical example.

The crises in Nigeria’s federal arrangement are not only about ethnic differences but also social injustice that is ingrained in cross-national class and gender conflict [5]. The federal structure was adopted in Nigeria to hold together the diverse ethnic entities and nationalities that had been forcibly
and arbitrarily incorporated into one colonial behemoth under the British imperialist. It is no wonder, therefore, that the British colonial legacy called Nigeria has been described as a self-cannibalizing paradox [6]. In line with other colonized and traumatized African nations, Nigeria no doubt is a product of the colonialist’s design meant to protect the socio-economic and political interest of the imperialist. The contraption consists of disparaging ethnic nationalities that were arbitrarily coerced into the Nigerian federation. Like other disintegrative federalist States, Nigeria lacks integrative identities, value of civic reciprocity and mutual respect associated with voluntary compacts or where there was a bargain to federate. The spate of clamor and agitations for a shift towards true federalism shows the depth and breadth of the dissatisfaction and hatred among the socio-cultural groups and constituents.

For this discourse, federalism is a structure of governance in which political and taxing powers are constitutionally shared among the various levels of government such that each level operates independently but cooperatively in their various jurisdictions. It suggests the existence in one country of more than one level of government each with different expenditure responsibilities and taxing powers. In this context, Nigeria comprises of the federal government, 36 state governments and 774 local government Councils. The idea was to accommodate all ethnic groups, principalities and nationalities in grassroots governance while ensuring even development across cultures.

The challenge in Nigeria is how to work out a proper fiscal arrangement among the different levels of government that will ensure fiscal autonomy within the framework of macroeconomic stability [7]. The fiscal relations among the different tiers of government in a federal structure are often called fiscal federalism. In other political arrangements, it is known as inter-govermental fiscal relations. Fiscal federalism is therefore, characterized by fiscal relations between the central government and lower levels of government. It covers two interconnected parts. The first is the division of competence in decision making about public spending and public income between the different levels of government. The second is the degree of liberty enjoyed in decision making by regional and local authorities in the assessment of local taxes as well as in the consideration of their spending [8]. Fiscal federalism entails the allotment of tax-raising authority and spending responsibilities between levels of government. As the financial relationship between and among existing tiers of government, fiscal federalism deals with the system of transfers or grants through which the federal government shares its revenue with the state and local governments. It is concerned with generating revenue, sharing revenue and redistributing resources among the various tiers of government.

The federal system can be classified using criteria that distinguish particular types [9]. They include federation and confederation, aggregation and devolution, symmetry and asymmetry, uni-national and multinational federalism, and coordinate and cooperative federal systems. Federal systems can be understood in terms of a continuum along a polarity consisting of the most purely aggregative systems at one end and the most purely devolutionary at the other. It is important to note that the constitutive power upon which a federal system is founded helps to explain the structure of constituted power within that system.

2.2. Theories of Federalism: Dual Vs Cooperative

There are two common representations of federalism [9], [12], [13]. They are dual federalism and cooperative federalism. The concept of dual federalism summarizes a theory about proper interaction between the central government and state government. The theory has four significant components. First, the central government rules by enumerated power only. Second, the federal government has limited set of constitutional roles. Third, each government unit, federal and state, is independent within its sphere. Fourth, the relationship between federal government and states is best characterized by tension, that is, competition rather than cooperation [9]. Dual federalism holds the view that a federal constitution represents a component among sovereign states so that the powers of national and state governments are clearly differentiated. It portrays the state or component units as powerful component of federal systems which in some way equals the federal government. Under dual federalism, the functions and responsibilities of the federal and state are in principle different and empirically separate from each other. Of paramount importance to dual federalism are state rights, which reserve to the state all the powers not specifically conferred on the federal government. According to the theory of dual federalism, a rigid wall separates the central government and state government. The proponent of state right believe that power of central government should be narrowly interpreted [11].

While crafting the American federal constitution, the adherent of weak central government and powerful state were on the side of dual federalism. The American anti-federalists attacked the centralization of power in a strong central government, claiming it would obliterate the states, violate the social contract of the Declaration of Independence and destroy liberty in the process. Controversy over state rights usually arises as a result of different meanings given to national government policy or proposed policy. Political scientist and scholars used a metaphor to explain dual federalism. They refer to it as layer-cake federalism in which the powers and functions of the central and state government are as separate as layers of cake. Each government is supreme in its own layer, with limits of action. The two layers are distinct and the dimensions of each layer are fixed by the constitution which is the supreme law of a federation. Dual federalism has been challenged and criticized on historical grounds by proponents of cooperative federalism. It is pertinent to state that Nigerian federalism is far from dual federalism because the federal and the states rather than antagonizing with distinct and independent roles, share some roles and as well exercise exclusive power over some items.
Cooperative federalism is at variance with dual federalism. The phraseology ‘cooperative federalism’ which was coined in the 1930s is a different theory of the relationship between federal government and state government. It is founded on the philosophy of widening overlap between state and federal functions but rejects the idea of separate sphere or layers for federal and state government [11]. Cooperative federalism theory has three basic tenets. First, state and federal institutions typically execute government function commonly rather than mutually exclusive. Second, the federal and state government routinely shares power. Third, power is not concentrated at any level of government or agency; the fragmentation of duties offers the people and groups access to diverse avenues of influence. The metaphor used by scholars to describe cooperative federalism is a marble cake layer. The federal and state governments do not operate independently rather their roles are mixed and complementary. Some scholars contend that the layer cake metaphor or dual federalism theory never accurately described Nigeria political system as appropriately done by the marble layer metaphor. The Constitution of the Federal Republic of Nigeria tends toward cooperative federalism because it provides for distinct and shared roles between the central government and state. Exclusive items are left exclusively for federal government, residual items are exclusively for states while concurrent items are for both, but in the event of conflict the federal law prevails. The second schedule (part one) of the 1999 Constitution of Nigeria contains 68 items within the exclusive legislative power of the Federal Government whereas part two of the same schedule provided for concurrent items. The fourth schedule outlines the functions of local government councils.

The American Federal Constitution recognizes cooperative federalism. The federalists through their commentary on the constitutional debates supported cooperative federalism. These American federalists such as James Madison, Alexander Hamilton and John Jay argued for a form of federalism that encourages both separate and shared responsibilities among the state and federal. Cooperative federalism holds the view that federal constitution is an agreement among people who are citizens of both the state and nation, so there is overlap between state and federal power [11]. In the USA, the conservatives are frequently portrayed as believing that state have different challenges and resources and that returning control to state government would actually accommodate the difference. The states will have the liberty to experiment with alternative means to solve their problems. States under conservative approach to federalism would compete with one another and people would have the liberty to chose the state government they preferred by voting with the feet and moving to another state. The conservative approach contends that national government is too remote, too tied to special interests and not responsive to public at large. The national government in the view of conservatives over-regulates and tries to promote uniformity whereas states are closer to the people and better positioned to respond to particular local needs. The conservatives are associated with cake layer or dual federalism theory. The liberal approach to federalism believes that one function of the central government is to bring equality, the liberals believe that states remain unwilling and unable to protect the rights or provide for the needs of their citizens whether those citizens are business interest, defendant seeking guarantees of due process of law or the poor seeking a minimum living standard. The liberal are in support of the marble layer or cooperative federalism [9].

2.3. Objectives and Goals of Fiscal Federalism

Fiscal relation among units in a federation aims at achieving certain objectives such as:

First, ensuring correspondence between sub-nationals spending responsibilities and their financial resources so that functions assigned to sub-national governments can be effectively carried out. Second, increasing the sovereignty of sub-national government by incorporating motivation for resources mobilization. Third, ensuring that the macroeconomic management policies of central government are not undermined or compromised. Fourth, giving expenditure discretion to sub-national government in appropriate areas in order to increase the efficiently of public expenditure and improve the accountability of sub-national officials to their constituents in the provision of sub-national services. Fifth, integrating intergovernmental transfers in ways that are administratively simple, transparent and based on objective, stable, non-negotiable criteria. Sixth, minimizing administrative costs and economizing on scarce resources. Seventh, providing equalization payments or grants to offset the differences in fiscal capacity among states and among local governments so as to ensure that poorer sub-national governments offer minimum amount of critical public services. Eighth, integrating mechanisms that support public infrastructural development and its appropriate financing. Finally, supporting the emergence of a governmental role that is consistent with market oriented reforms.

2.4. Overview of Fiscal Federalism/Revenue Allocation System in Nigeria

Fundamentally, the federal system was adopted to promote unity through social, political and economic diversity. Nigeria has however, been described as an unfinished state characterized by uncertainties and contradictions with very low level of popular legitimacy and accountability [19]. For local communities and elites, the centre point of politics is the struggle for access to national patronage of oil revenue that is aggregated and redistributed by the national government using its highly centralized power structure. In essence, Nigeria practices a unitary system of government in the guise of a federal arrangement.

Revenue allocation is a method of sharing the centrally generated revenue among the different tiers of government and how the amount allocated to a particular tier is shared.
among its components (if any). It is a mechanism for sharing the national financial resources between the various tiers of government in the federation with the objective of enhancing sustainable economic growth and development. Ideally, it minimizes inter-governmental conflicts while assisting the nation in attaining national unity [14]. The theory of revenue sharing in a federal state holds that each level of government receives an allocation of financial resources tailored to their specific requirement as defined by the mandate of legislative competence, environmental peculiarities and the statutory indices of calculation. In Nigeria, decision as to what proportion of centrally-generated revenue that would be retained by the federal government, the proportion that will be shared among the state governments and the proportion that will go to the local governments has been a problem, due to lack of consensus as to what an ideal formula is. In fact, revenue allocation or the statutory distribution of revenue from the federation account among the different levels of government has been one of the most contentious and controversial issues in the nation’s history. The issue has been so contentious that none of the formulae that evolved between different times by different Commissions or decrees under different regimes since 1946 has been generally accepted by the federating units and disparate groups.

Many Commissions/Committees had been set up at different times since 1946 to examine various fiscal issues with a view to recommending national revenue sharing formula in Nigeria. They include the Phillipson Commission (1946); Hicks-Phillipson Commission (1951); Chicks Commission (1953); Rainsman Commission (1958); Binns Commission (1964); Dina Interim Committee (1968); Aboyede Technical Committee (1977); Okigbo Commission (1980); and Revenue Mobilization Allocation and Fiscal Commission (1989) [15] [23].

It is important to note that all the afore-mentioned Commissions/Committees were ad hoc in nature except the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC). The RMAFC was established as a legal institution to deal with periodic and emergent fiscal matters. The litany of Commissions/Committees and the short time horizon of the outcomes attest to the fact that revenue allocation in Nigeria has a contentious history. The quick succession of the Commissions was the result of lack of agreement, mistrust and rejection of the revenue sharing embodied in the structure of fiscal relations by the constituent and diverse ethnic nationalities. A close look at the recommendations of the various revenue allocation commissions/committees show the following fourteen principles or criteria of revenue sharing: (a) Basic need (b) Minimum material standards (c) Balanced development (d) Derivation (e) Equality of access to development opportunities (f) Independent Revenue/Tax effort (g) Absorptive capacity (h) Fiscal efficiency (i) Minimum responsibility of government (j) Population (k) Social development factor (l) Equality of states (m) Landmass and terrain (n) Internal Revenue generation effort

Among the principles that have continued to serve as the yardstick for revenue allocation up to this day is the principle of derivation advanced by the oil producing states of South-South region. It has generated a lot of tension that threatened the unity and corporate existence of Nigeria at different times. Apart from pitching the South-South against other geopolitical zones, the issue of adopting derivation as the main principle for allocating revenue has resulted in litigations and militancy especially in the Niger Delta region. It has been the position of the oil producing areas that true federalism demands that states should exercise control over whatever natural resources that abound or are found in their land. It is further argued that true federalism requires that each state should take charge of revenue generated from resources found in their administrative area and only agreed amounts to the federal government. In contrast, the non-oil producing states, particularly the northern states, some of which are essentially semi-arid, contend that natural resources no matter where located belong to federal government and thus should be shared without disproportion. The federal government latently supports the position by claiming control over natural resources found in any part of the federation. By this arrangement, all revenues from all parts of the nation accrue to the Federation Account which is shared among the three federating Units. This arrangement, in reality, accentuates the bitter struggle to control the central government by the contending ethnic groups. While the Hausa/Fulani Oligarchy of the North wants the status-quo ante to be maintained since the arrangement obviously favors them, the South wants to exercise control over the resources that derive from their soil in a true federalist sense. A recent development in the struggle for the control of oil resource in Nigeria was the inability of the 2014 Constitutional Conference organized by the Goodluck Jonathan Administration to reach a consensus on what percentage of the federally generated revenue should be allocated to derivation. In fact, the debate on revenue allocation formula or principle to be adopted tore the conference along ethnic cleavages.

Fundamentally, there are two components of revenue allocation formula used for disbursement of the Federation Account. The first is the Vertical Allocation Formula (VAF) and the second is Horizontal Allocation Formula (HAF). The Vertical Allocation Formula shows the percentage allocated to the three tiers of government that is federal, states and local government. This formula is applied vertically to the total amount of disbursable revenue in the Federation Account at a particular point in time. The VAF allows every tier of government to know what is due to it; the federal government on one hand and the 36 states and 774 local governments on the other [17]. The Horizontal Allocation formula is applied to states and local governments only. It provides the basis for sharing of the amount of revenue already allocated to the 36 states and 774 local governments Councils. Through the application of the principles of horizontal allocation formula, the allocation due to each state or local government is determined and paid into the State Joint Local Government Account (SJLGA). Thus, it can
conveniently be concluded that the vertical allocation formula is for inter-tier sharing between the three tiers of government while the horizontal allocation formula is for intra-tier sharing among the 36 states and the 774 local governments in Nigeria [17].

The four major areas of conflict identified in Nigeria’s revenue sharing are:

First, the conflict among the federal, state and local governments over what proportion of national revenue should be allocated to each of these tiers of government. Second, the tension among the states and among the local government over the criteria to be used in sharing or distributing federal financial devolution of these two sub-national tiers of government. Presently, the state and local government allocations are paid into the State Joint Local Government Account which gives State Governors unfettered access to meddle with statutory funds for the local government. Third, the tension between the oil-producing states on one hand and the federal government and many of the states which do not produce oil over the proportion of federally collected revenue that should be allocated to the former on the basis of the derivation principle and/or compensation for the ecological risks of oil production. Fourth, is the general intergovernmental conflict over suspected irregularities or anomalies in the centre’s administration of Federation Account [18]. There is also disagreement over the right of the Federal government to withhold Excess crude revenue accruing to the Consolidated Federation Account. The Federal government sets a lower benchmark in its annual budget to cushion external shock or boom-burst cycle in international oil market. Money in excess of the benchmark accrues in the common account and can be saved for the rainy day. The sub-national governments however, insist on sharing everything because of mutual mistrust. Being extra-budgetary, the money often disappears into the sink-hole of corruption.

3. Result

Nigeria’s major source of revenue is petroleum profit tax which is paid into a consolidated Federation Account domiciled with the Central Bank. The federally generated revenue is shared among the three tiers of government every month. The present structure of fiscal federalism skews in favor of the federal government. This is a deviation from what was obtainable in the first republic when the regions and derivation principle was accorded priority in vertical and horizontal allocation formula respectively. The present formula for vertical fiscal relation in Nigeria based on presidential executive order is as follows: Federal Government (52.68%); State Government (26.72%); Local Government (20.60%) while the horizontal allocation formula which captures factors/principles and percentage is as follows: Equality (40%); Population (30%); Landmass/Terrain (10%); Internally Generated Revenue (10%); Social Development Factor (10%). For purposes of emphasis, the Social Development Factor comprised of Education (4.0%), Health (3.0%) and water (3.0%). 13% goes to oil producing states as derivation funds. This sharing formula has some grave socio-economic implications and consequences. First, it stifles the sub-national governments’ capability to provide critical statutory social welfare services and accomplish other responsibilities. It has been posited that states and local governments in Nigeria are chronically weak, insolvent and emasculated because they have poor revenue bases and as such depend substantially on statutory handouts [19]. Second, it fuels crises of relative deprivation or marginalization especially among the ethnic minorities that have less number of states and local governments. Third, it accentuates corruption because too much money is allocated to the federal government which is perceived by some as belonging to nobody and therefore a national cake or social pie. A greater percentage of the money goes down the sinkhole of graft, sleaze and corruption. Perhaps, this underlies the assertion that Nigeria is the only country where you can have a multi-billionaire who has no industry [19]. Fourth, it makes for a distributive approach to federalism where the centre is too powerful with a lot of discretionary powers to reallocate resources and development projects to patrons and ethnic clienteles. The import is that controlling the centre arrogates over fifty percent of national revenue to the government in power and this tends to intensify divisive ethnic politics.

4. Discussion

Inter-governmental fiscal relations in Nigeria had been undergoing changes. On independence, the country adopted the parliamentary system of government with regional arrangement. In the 1970s, fiscal power was transferred from the regional governments to federal government which now controls the bulk of national revenue at the centre. The development was shaped by variables such as military rule, civil war, state creation, jettisoning of derivation principle and over-reliance on oil as the nation’s main revenue source. By virtue of decree 13 of 1970, the share of allocation based on derivation was reduced to 50 percent, while 50 percent of DPA each went to population and equity of state. The federal government took absolute ownership and control of all revenue accruing from petroleum via decree 51 of 1969 and 38 of 1971 while decree 9 of 1971 gave federal government authority to collect proceeds of all offshore oil. By 1975 derivation further declined to 5 percent while 20 percent of onshore oil revenue went to state and 80 percent went to the DPA from where it was distributed on the basis of equality of states. In 1977 DPA was replaced with a single Federation Account and proceeds were allocated based on the ratio formula of 60:30:10 percent to federal, state and local governments respectively. By this fiat, the federal government totally changed the sharing formula to its own advantage. In 1985, the sharing formula changed to 50:35:10 and in 1997 the ratio became 48.5:24:20.5.

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A critical appraisal of the vertical fiscal relation principle reveals that the allocation formula is disproportionately in favor of the federal government. The proportion of the revenue allotted to the Federal Government is far more than the total summation for States and Local Governments. The creation of stabilization fund, dedicated account and Petroleum Trust Fund by the federal government has equally contributed to reduction of available money for states from Federation Account which they mainly rely on. The nature of fiscal federalism currently practiced in Nigeria where the federal government dictates the tax, the tax base and sharing system within the three levels of government and expands its fiscal jurisdiction and resources with little or no fiscal responsibilities, leaves the lower levels of government that have enormous responsibilities with weak fiscal powers. The situation is worrisome because it is counterproductive in mono, oil driven economy where every tier of government depends almost entirely on handouts from the Consolidated Federation Account. The seriousness of internal revenue situation is underscored by the fact that between 1991 and 1995 only Lagos was able to generate up to 50 per cent of its current revenue internally [20]. The dependence of the lower tiers on federal allocation to execute their constitutional responsibilities vitiates development programs particularly in the event of dwindling revenue from the federation account. This makes Nigeria’s economy susceptible to external shocks due to fluctuations in the international oil market accentuated by a culture of consumption without savings. The situation is further confounded by the activities of Niger Delta militants which adversely affects oil production level. In August 2015, at least 27 state governments were unable to pay workers salaries due to payment of half salaries which means paying workers half (50%) of their monthly basic salaries. The situation was worse in the local government system which has the least financial autonomy. Like the states, a large number depend almost entirely on statutory allocation through the State Joint Local Government Account. The Federal government instituted a bailout intervention fund for distressed States and Local Governments to settle parts of the salaries owned to workers. It is ironical however, that some governors confound the problem by diverting the funds to their personal use while other indulge in executing white elephant projects that add virtually nothing to the welfare of the masses. In the same vein, the Paris Club refund (cash refund of over deduction from Paris Club loan) which was released to states to alleviate their financial distress and at least offset workers salaries was misappropriated. A governor was accused by EFFCC of diverting three million dollars from the money accruing to his State to build a hotel. The first tranche released from the London/Paris Club refund by the Federal Government to state governments was ₦388.304 billion out of a total of ₦522.74 billion Naira.

The reality is that, in as much as the Federal Government refused to devolve commensurate fiscal power to lower levels, economic development in Nigeria will continue to suffer. It has been observed that owing to the imbalance in Nigeria’s fiscal relations, some States and Local Government Councils still have backlog of salaries and allowances, pensions, gratuity and other statutory obligations [22]. Civil servants in some federal establishments, states and local governments are either on strike or threatening to go on strike owing to unpaid salaries and other benefits. Many on-going capital projects are abandoned or suspended due to inadequate funds. The point is that imbalances in the current structure of fiscal federalism in Nigeria limits the capacity of the States and Local Governments to provide public goods needed to promote and sustain development. It simultaneously and inextricably undermines the internal revenue generating capacity of the States and Local Governments making them perpetually subservient and dependent on federal government. This negates the principles of federalism.

It is arguable that no significant or real economic growth has taken place in Nigeria ever since government de-emphasized the region and derivation principle. This is the consequence of over-dependence on the so-called national cake. In other words, the discovery of oil and the massive infusion of petro-dollars accentuated the Dutch disease syndrome and a political culture in which prominence is on how to allocate the oil revenue rather than the evolution of diverse, viable economic production alternatives. For instance, the struggle for revenue sharing has in reality led to illogical agitations for creation of more states and local government which are unviable but depends on the federation account for survival. Indeed, the structure of fiscal federation in Nigeria threatens enterprise, innovation and incentives for sustainable development. The over-reliance on oil proceeds and the strangulating fiscal power of the federal government counteracts the objective of true fiscal federalism. It does not guarantee correspondence between sub-national spending responsibilities and financial resource availability so that functions granted to sub-national governments can efficiently be implemented. Moreover, as earlier stated, fiscal relation in Nigeria has not enhanced the independence or viability of sub-national governments by motivating them to mobilize revenue on their own. Rather, it intensifies the subordination
of the component units to federal government and apparently created a master-servant relationship. Besides, the monumental level of corrupt practices among the political class in Nigeria, particularly in the petroleum sector cannot be entirely unconnected with the nature of fiscal federalism that is in operation in Nigeria. The concentration of oil revenue at the centre without adequate fiscal monitoring eroded financial accountability which hinders development since resources earmarked for public purposes are diverted by those entrusted with the collective wealth. The situation concurs with the position that the constitutive power of a federal system helps to explain the structure of the powers that constitute the system [9]. The current practice in Nigeria is that the federal government does not only have the sole responsibility for levying and collecting the most lucrative taxes but also for deciding how the federally generated revenue should be allotted. This arrangement makes the state to sacrifice great deal of their autonomy because a large percentage of their revenue is dependent on federation account which size is, before now determined by the federal government. The arrangement has turned state governments into beggars who run to the Federal Government with cap in hand soliciting for grants-in-aid. This situation contravenes the principle of financial viability of States and Local Governments which is central to true federalism [25, 26].

The implications of these circumstances for economic growth have been negative because the lop-sided nature of revenue sharing favors the Federal Government leaving the States and Local Governments with low fiscal powers to carryout developmental projects. Besides, the over reliance on oil revenue from federal statutory account erodes the autonomy of the States and Local Governments. The de-emphasis on derivation principle reduced competition in other areas of production. The cumulative effects of all these are the inability to provide infrastructure necessary for development, abandonment of on-going project due to poor funding, nonpayment of workers’ salaries and collapse of social infrastructure owing to poor maintenance. Therefore, there is urgent need for the Federal Government to increase vertical revenue allocation to States and Local Governments, encourage competition among the various tiers through emphasis on derivation principles and enthrone accountability in the public sector [27, 28].

The preponderance of ethnic identity creates a centrifugal force that underlie the uncertainties and contradictions which manifest as conflict. Thus, militancy, terrorism, high-tech or cyber crimes, corruption, secessionist tendencies and agitations for self-determination are reactions that are attributable to the shortcomings of Nigeria’s federal arrangement and the unwillingness of the political elites to address the imbalance.

5. Recommendations

In view of the anomalies and counterproductive circumstances associated with fiscal federalism and revenue allocation in Nigeria, there is need to reform and restructure Nigeria’s federal arrangement. In other words, some strategies have to be adopted to align fiscal relations in Nigeria with the objectives of true federalism. This will invariably spur or induce sustainable economic growth and development of the country. Drawing from the foregoing, the following recommendations are made:

First, there is pressing need to diversify the economy by developing other productive sectors such as solid mineral, agriculture and manufacturing. This will reduce the dependence on oil revenue with its negative consequences. The Federal, State and Local Governments should pursue sustained policies and programs that will consolidate on what has been achieved so far in the agricultural sector. Second, the revenue sharing formula and fiscal relations among the federating units should be readjusted in an equitable manner to the benefit of all tiers. The present arrangement is skewed in favor of the Federal Government. Thus, the Federal Government should make some sacrifices by relinquishing some percentage of its lion’s share from the Federation Account to States and Local Government to execute their statutory responsibilities. The vertical sharing formula should be in the following proportion: Federal Government 35%; States 40%; Local Government 25%. Third, the federal government should emphasize Derivation as revenue sharing principle to encourage both oil and non-oil producing states to look inward for other viable revenue sources instead of relying only on oil revenue from statutory allocations which fluctuate based on the price of oil in the international market. Fourth, there is the urgent need for constitutional review especially as it relates to federalism. Nigeria, as it is constituted today, does not represent a true federation because the central government is too powerful politically and economically. In a true federation the component units are not in any way substantially subordinate to the federal government. Fifth, there is need to institutionalize anti-corruption measures that will promote accountability in public sector and plug revenue leakages and theft by public officials. Nigerian public officials are stupendously corrupt as exemplified by everyday disclosures on how those in political offices mismanage and siphon public funds. Though the Federal government currently has some anti-corruption measures in place, more efforts are required to sanitize the public sector with a view to enthroning a culture of transparency, probity and accountability in public resources management.

6. Conclusion

Federalism demands the co-ordinate interaction of various levels of government, namely the federal, state and local governments. Within the context of federalism emerges fiscal federalism which refers to the structure and process of fiscal relation among the tiers of government. Nigeria’s current federal structure was a British creation. It was an administrative design by the colonial imperialists to coerce the various disparate nationalities together for administrative convenience without regards to the feelings of the people. Fiscal federalism as
practiced in Nigeria currently falls short of the spirit and principles of true federalism. The revenue allocation formula is characterized by imbalances that generate endless cycle of controversies, tensions and conflicts that threaten the corporate unity and existence of Nigerian including its sustained development. Presently, the federal government has overreaching power over the nation’s resource and as such the States and Local Governments are subordinated to the Federal Government for funds. The nature of the economy makes all levels of government to rely heavily on oil revenue which has been unstable owing to uncertainties in the international market. The trend is economically risky and dangerous. The economic recession experienced in Nigeria is not unconnected with the continuous fall in price of crude oil. The attendant consequent has been a decline in federally generated revenue which invariably affects the proportion of the revenue that accrues to States and Local Governments. This is more worrisome in view of the fact that the percentage of the revenue assigned to the Federal Government based on the revenue sharing formula is far higher than that of the States and Local Government.

References


