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Fiscal Federalism and National Development in Nigeria

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ABSTRACT

The study traces the slow pace of National development in Nigeria to the faulty federalism being practiced. This problem is traced to military intervention in politics and the contradiction of the Nigerian State in terms of it's over dependence on crude oil revenue which accounts for over 90% of national revenue. Suffice to state, that successive attempts at strengthening the practice of fiscal federalism have all failed to address the issue because of politics and entrenched interests in the Nigerian State. The study thus contend that until the country (Nigeria) adopts fiscal federalism in its entirety, national development of the Nigerian State would be elusive, as the component units making the Nigerian federation are constrained by their precarious position to develop on their own in a competitive manner due to constitutional constraints.

1.1 INTRODUCTION

Fiscal federalism is a critical aspect of federalism with immense impact on Inter-Governmental Relations (IGR) and development. While federalism is a power sharing arrangement between central, states and local governments with a coordinated spheres of authorities. Fiscal federalism has to do with the expenditure and fiscal instrument arrangement among the tiers of government in a federation. It is the assignment of authorities and functions to the tiers of government as well as the appropriate fiscal instruments for carrying out the functions.

Over the decades, fiscal federalism has become the benchmark for measuring a truly federal states and also seen as sine qua non to the autonomous and general development of federating States. Moreso, it is regarded as a worldwide reform agenda advocated by the Bretton Wood Institutions (World Bank, International Monetary Fund etc). This is based on the premise that the essence of government is to foster rapid and general economic development that fiscal federalism promotes (Ekpo, H and Abwaku, 2017). Thus, fiscal federalism is an imperative federal practice.

Nigeria operates federalism, with power sharing arrangement among the three tiers of government adequately enshrined in the nation's constitution. Nonetheless, the nation's federalism has been one of the most contentious national issues in post-independent Nigeria (Kayode, 2014). The criticisms about the nation's federal practice is due to perceived deviation from the "true federal practice" (fiscal federalism) after practicing same prior to and immediately after independence until the military struck in 1966 and introduced a quasi-unitary system in Nigeria.

From the post-independence era, fiscal federalism was jettisoned, leaving the central government with so much fiscal responsibilities and powers at the expense of the States and local governments. In the last 6 decades, the agitations of the federating units against the central government have increased as the states and local governments struggle to meet their financial obligations and social responsibilities as well as the perceived marginalization and underdevelopment of the oil producing States.

The deviation from true federal practice (fiscal federalism) has been the bane of national development since states and local governments are left with little resources for developmental projects. (Ajayi, 1999; Aigbokhan, 1999; and Arowolo, 2011).

1.2 Conceptual Issues

The following concepts used in this paper are defined as they relate to this paper to avoid ambiguity.

Federalism

Vincent (2001) defines federalism as a government where each tier of government is coordinated and independent in its delimited sphere of authority as well as fiscal powers and resources to function. On the other hand, Arowolo (2011) views federalism as a system of government where the power of the federalism units is shared among them. In the same vein, Sharma (2005) sees federalism as a power and resource sharing arrangement between central government and the federating units.

Fiscal Federalism

Sharma (2017) clarifies the concept of fiscal federalism as a set of guiding principles that enshrine the financial relations between the national and sub-national levels of government. Ekpo (2004) and Maxwell (2016) in their contributions see fiscal federalism as ideal federal practice that entails inter-governmental fiscal relations between a central government and its sub-national units. Furthermore, Olabanji (2012), defines fiscal federalism as mirroring the amount of fiscal autonomy and responsibility granted subnational governments, with emphasis on the levels of government having adequate resources to perform their functions autonomously. The definitions and conceptions above give credence to the postulation of K. C. Wheare (1963) that fiscal federalism is hinged on power sharing, fiscal decentralization and financial autonomy for the tiers of government.

Development

The term, development remains a contentious issue between liberal and Marxist Scholars. To the liberalist a la Todaro, Schultz, Little and the World Bank, development entails economic growth, industrialization, elimination of poverty and infrastructural growth. The Marxists on the other hand, see development from a different perspective. Marxists such as Lenin, Frank, Rodney, Toyo, Nkrumah, Kay, Dos Santos, and Dudley view, development as synonymous with socialist mode of production, that it is centered mainly on the development of human capital beside economic indices and infrastructural improvement (Okereke and Ekpe, 2002).

From the perspectives enunciated above, development could, however, be seen as multidimensional, encompassing economic growth, industrialization, infrastructural growth and most importantly human social development in a sustainable manner.

National Development

Bhawna (2018) conceptualizes national development as a holistic development approach that includes full growth, industrialization, infrastructural growth, social and human development of a nation as a whole. Kayson (2017) in his contribution, sees national development as all round or even development of all facets and sections of a country. This includes political, social, human, cultural, material, scientific as well as every area of the country.

2.1 Theoretical Underpinnings: Fiscal Federalism Theory.

The paper is anchored on the above theory as propounded by German-born American economist, Richard Musgrave (1959). Musgrave posits that the central government should give the lower tiers of government more funds for them to function effectively. Musgrave's argument is that the central government or federal government has the capability and should solve issues facing or confronting the federating units by allocating more resources to them or by giving them the constitutional power to be able to generate resources in their respective units or States or within the larger whole in order for them to be responsive to their local development challenges. Ewetan (2012) is in agreement with the views expressed above. He is of the opinion that, if the federal government provides a conducive environment for fiscal federalism to thrive, the federating States would be in a better position to meet the development needs of its peoples. Arrow (1971) argued further that Musgrave postulations defined the pattern of fiscal relations and responsibilities among the tiers of government under a federal entity. Ozo-Eson (2005), Olabanji (2012) and Ekpo (2004) contend that federalism in Nigeria has gone from an ideal to an aberration. Nigeria's federal system according to these scholars is at variance to fiscal federalism as advocated by Musgrave, advanced by Wheare and prescribed by development economists, institutions and scholars.

Suffice to state that, the deviation from the tenets of fiscal federalism by the Nigerian federation has marginalized the federating units, especially the oil producing States and the third tier of government called the local government, has been mainly affected by this faulty practice of federalism. This accounts for the wide-spread criticisms and agitations against the current federal practice, promoting the call for fiscal federalism.

Given the poor state of finance accruable to the States and local governments in Nigeria and coupled with the fact that most of the subnational governments have become over-dependent on federal allocations due to the contradictions arising from an oil-dependent economy, the States and local governments find it difficult to carry out developmental projects. This account for the poor state of national development in Nigeria. Apart from a very few States that have made developmental strides in the last decades, and a few that have grown their revenue appreciably to a sustainable level, many others have had little or no developmental projects and resources to impact meaningfully on national development of the country (Odawe, 2017).

2.2 The Development of Fiscal Federalism in Nigeria

The development of federalism in Nigeria has raised a lot of issues in terms of the fiscal relations between the federal and State governments, between the States and local governments, in what could be termed horizontal and vertical fiscal relation conflicts. It has also generated conflicts and crises between the regions of the country (Kayode 2014; Ekpo, 2004).

In an attempt at addressing the issue of fiscal federalism in Nigeria, various commissions were set up at different stages of the country's political history, starting from the colonial era, military eras and the democratic eras. These commissions have barely been able to properly address the fiscal federalism concerns of the Country (Bamgbose, 1998).

An analysis of the various commissions could be seen in table 1

Table 1: Showing Commissions set up to address Nigeria Fiscal Federalism Challenges

S/N	Commissions	Year
1.	Phillipson Commission	1946
2.	Hicks-Phillipson Commission	1950
3.	Louis-Chick Commission	1954
4.	Raisman-Tress Commission	1958
5.	Binns Commission	1964
6.	Dina Commission	1969
7.	Aboyade Technical Committee on Revenue Allocation	1977
8.	Okigbo Commission	1979
9.	Danjuma Commission	1899

Source: Kayode (2014) and Ewetan (2012)

With this preview of the commissions, it is pertinent to examine these commissions and their role in the development of fiscal federalism in Nigeria. This would aid our appraisal of development of fiscal federalism in Nigeria as well as the contentious issues militating against the adoption of fiscal federalism in Nigeria.

The first fiscal commissions were actually the first attempts taken by Nigeria as far as ingraining fiscal federalism to her federal practice. It should be noted that from the Philipson commission of 1946 to the Louis chicks commission of 1954, their tasks were limited to the equitable allocation of “non – declared” revenue to regional governments. Particularly, the Phillipson commission recommended the adoption of derivation and even development as a criteria for revenue allocation in Nigeria (Ewetan, 2012).

Table 2: Showing Revenue Allocation Formula Based on the 1946 Phillipson Commission’s Recommendations

S/N	Regions	Percentage
1.	Northern	46
2.	Western	30
3.	Eastern	24

Source: Ewetan, 2012

From the table 2, it is clear that the level of fiscal federalism was high as a result of the commission’s recommendations. While the Hick – Phillipson Commission of 1950 recommended revenue allocation based on need, derivation, fiscal autonomy and national interest as criteria, the Louis- Chick’s Commission hinged revenue allocation on mainly derivation Principle. While the Raisman-Tress’s Commission recommended that revenue allocation be based on a distributable pool Account (DPA) as shown in table 3.

Table 3: Showing Revenue Allocation to Regions, Based on Raisman Commission’s Recommendations

S/N	Regions	Revenue Percentage
1.	Northern	40
2.	Western	31
3.	Eastern	24
4.	Southern Cameroun	5

Source: Ewetan (2012)

It should, however, be noted that when Southern Cameroun left the Nigerian Federation in 1961, the DPA was redistributed as follows as shown in table 4

Table 4: Showing the Re-distributed formula

S/N	Regions	Revenue Percentage
1.	Northern	42
2.	Eastern	33
3.	western	25

Source: Ewetan (2012)

With the creation of Mid-Western region in 1963, the percentage accruing the Western Region was shared with the Mid-western region on a ratio of 3:1 (Arowolo, 2011). By 1964, the Binns Commission jettisoned the principles of need and derivation, thereby, recommending regional financial responsibility and Percentage as mentioned in table 5.

Table 5: Revenue Allocation Based on Binns Commission's Recommendations

S/N	Regions	Revenue Percentage
1.	Northern	42
2.	Eastern	30
3.	western	20
4.	Mid-Western	8

Source: Odawe (2017)

The creation of 12 states from the hitherto 4 regional governments through decree No.15 of 1967 created a constitutional provision for a new revenue allocation. The decree abandoned many previous criteria that would have gravitated the nation's federalism towards fiscal federalism.

The decree enshrined revenue allocation to be shared as mentioned in table 6.

Table 6: Showing Revenue Allocation based on Decree No. 15 of 1967

S/N	Regions	Revenue Percentage
1.	East Central	17.5
2.	Lagos	2
3.	Mid-Western	8
4.	6 Northern States	7
5.	South Eastern	7.5
6.	Rivers	5
7.	Western	18

Source: Odawe, 2017

The decree undermined the critical criteria that formed the basis for previous allocations, such include population, derivation and consumption etc.

The Dina Commission of 1969 based revenue allocation on national minimum standard, balanced development (Arowolo, 2011).

While subsequent decrees such as those of 1970 and 1975 sought to allocate revenue on more equitable criteria. The Aboyade Technical Committee of 1977 recommended a new revenue allocation based on new principles – equality of access to development opportunities, absorptive capacity, fiscal efficiency and independent revenue effort (Table 7).

Table 7: Showing Revenue Allocation Formula based on Aboyade Committee's Recommendations

S/N	Tiers of Government and Areas	Revenue Percentage
1.	Federal	57
2.	States	30
3.	Local Government	10
4.	Special Fund	3

Source: Ewetan, 2012

The 1979 constitution revenue allocation formula was based on the recommendations of Okigbo Commission of 1979. Thus, the percentage of revenue allocation is reflected in table 8 below.

Table 8: Showing Revenue Allocation Based on the Okigbo Commission of 1979

S/N	Tiers of Government and Areas	Revenue Percentage
1.	Federal Government	53
2.	States	30
3.	Local Government	10
4.	Special Fund	7

Source: Ewetan, 2012

Among other areas touched, the constitution broke the monopoly of federal government over certain taxes such as company income tax and petroleum profit tax, while local governments were recognized as an independent revenue sharing entities in the federation. The 1984 Revenue Allocation Act changed the revenue allocation formula (Adeyemo, 2009).

Table 9: Showing Revenue Allocation Based on the 1984 Revenue Allocation Act

S/N	Tiers of Government and Areas	Revenue Percentage
1.	Federal Government	50
2.	States	30
3.	Local Government	15
4.	Others & Ecological Fund	5.0

Source: Ewetan, 2011

The Danjuma Commission of 1988 continued the trend as seen in table 10.

Table 10: Showing Revenue Allocation formula based on the 1988 Commission

S/N	Tiers of Government and Areas	Revenue Percentage
1.	Federal	50
2.	States	30
3.	Local Government	15
4.	Special Fund	5

Source: Ewetan, 2011

These developments have had profound effects on the nation's federalism, especially on its fiscal federalism. It is therefore crucial at his point to examine the challenges of adopting fiscal federalism in relation to national development of the country.

2.3 Fiscal Federalism and National Development in Nigeria

It is evident that Nigeria's national development has been constrained by a myriad of factors, of which the major one is the inappropriate practice of federalism (Odawe, 2017; Liyasu, 2011). Still, on this line of thought, Lamidi and Fagbohun (2013) argue that poor revenue conditions of the subordinate units have been the bane of their functional and institutional relevance as far as national development of the country is concerned.

In his contribution, Adeyemo, (2009) blamed the poor state of local governments on the paltry revenue allocated to the third tier of government, which has, in turn, constrained the tier of government to contribute meaningfully to national development of the country. Similarly, Lamidi and Fagbohun (2013) hinged the slow pace of national development in

Nigeria as caused by the lack of fiscal federalism. The subnational units, especially the Local Governments are left with little funds to initiate any meaningful development projects or programmes.

Both Ekpo (2014) and Kayode (2014) contend that the lack of fiscal federalism has hampered the capability of the states and local governments towards the provision of essential public goods and services. The scholars argue that the improper recognition given to the derivation principle is another vital indices of fiscal federalism that must be addressed to ensure national development of Nigeria.

From the analyses above, it is evident that the various attempts at strengthening the nation's fiscal federalism had been based partly on primordial interests rather than on rationality, equity and national interest. Such primordial interests range from political, regional, religious, sectional considerations at the detriment of national interest that would have enhanced national development of the country.

The monolithic economy and the resultant overdependence on oil revenues by the entire country has in contradiction hampered the ability of the component units especially the states and local governments to shore up their IGR since they all rely on federal allocation (Udogu, 2002; Kayode, 2014).

3.1 DISCUSSIONS AND CONCLUSION

The study reveals that the country has had a brief stint in the 1950s/early 1960s practicing fiscal federalism but the intervention of the military into governance in 1966 and the resultant deviation from the practice of fiscal federalism brought serious setback to the capability of states and local governments to function effectively as they barely could embark on developmental projects and initiate policies and programmes that would have accelerated national development in Nigeria.

Also, the over-reliance of the country on crude oil proceeds has reduced the capacity of the states and local governments to be innovative to create other sources of revenue for the development of their respective areas. The states only rely on monthly allocations from the federation account at the expense of exploiting other resources that abound in their states for the wellbeing of their citizens and overall national development of the country. No wonder, some critics had referred to Nigeria's federalism as feeding bottle federalism, a situation where all the states through their commissioners of finance assembles in Abuja, the Federal Capital every month to collect their shares of the "National Cake". This scenario does not and cannot stimulate national development in the country. Instead, it will only engender retrogression and underdevelopment in the country. This practice does not create healthy competition among the federating state as all of them only depend on the federal government through the federation account to run their states and even to pay salaries of their respective workers.

The drawback of the monolithic nature of the Nigerian economy is that it's prone to the vagaries of the international oil prices, which always have negative effect on the fortunes of the Nigerian economy whenever there is a fall in the price of crude oil in the international market or whenever there is a fall in the production capacity of the Nigerian National Petroleum Corporation (NNPC) due to restiveness of militant groups in the Niger Delta – the region that produces the bulk of the nation's revenue. No wonder most states can't meet their obligations to their citizens, that they have had to resort to running to the federal government for bailout to pay salaries of teachers and civil servants that have been owed several arrears of salaries. The federal government itself is broke, as it could not meet its responsibilities effectively, that it had to resort to borrowing both locally and internationally to finance the yearly budget and to finance some critical infrastructure like power (electricity) and rail transportation.

This ugly development could be traced to the faulty system or federalism that we practice in the country. The earlier the country reverts to true federalism or fiscal federalism, the better for it, if it wants some of the crises such as the Niger-Delta crisis, resource control agitations, threats of secession by various ethnic groups, calls for restructuring and referendum by various groups resolved. If these crises and agitations are not resolved urgently, it may lead to serious consequences for the country.

3.2 RECOMMENDATIONS

This study is of the view that for the country to achieve national development, the current abnormal federal structure be replaced by an appropriate fiscal federalism that would engender national development. Based on the above, the study further recommends as follows:

- The Federal government should set up a committee made up of technocrats and experts to ascertain the disadvantages inherent in the current federal structure and come out with a workable federal structure involving fiscal federalism.

- The federal executive should have the political will to send the recommendations of the committee inform of a bill to the national legislature to legislate on, in order to come up with the enabling constitutional amendments that would ensure the takeoff of an appropriate new structure- fiscal federalism.

- In the same vein, both the legislature and the executive at the federal and state levels should establish standing committees that will constantly review the practice and implementation of fiscal federalism in the country.

- Any fiscal structure or federalism that does not address the issue of autonomy of local governments in the country would be futile. As such, there should be a legislation granting local governments full autonomy against the current practice. This would go a long way in ensuring that local governments play a significant role in national development of the country.

- Last but not the least, fiscal federalism reforms should be devoid of all forms of primordial interests. Rather, rationality, merit, justice, exigency, equity and national interest should be the guiding principles of such reforms. This is the only way to assuage all the agitations and handle all the criticisms against the current lopsided federal structure or arrangement. It is the candid view of this study that if these recommendations are heeded, all the tiers of government and other relevant institutions would be able to contribute meaningfully to national development of Nigeria.

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