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Fiscal Federalism In The 21st Century Nigeria And Its Challenges On Sustainable Development Of The Federation

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Abstract

Fiscal federalism is a political arrangement for federating units to interact fiscally in the realization of government goals and objectives. The constitution clearly stipulate and demarcate the powers and functions of each units of the federation of Nigeria. However, the sharing formula is always competitive. The study qualitatively x-ray fiscal federalism in the 21st century Nigeria and its challenges on sustainable development. Many challenges, including the overly centralized federal government, poor financial management, and overdependence on oil, among others, have hampered Nigeria's fiscal relations. The study concluded by recommending decentralization of powers, eradication of corruption and diversify of economy. Consistent and workable revenue allocation formula is also apt in addressing the menace hinder fiscal relation in the federation.

Keywords: Federalism, Fiscal Federalism, Sustainable Development

INTRODUCTION

Fiscal federalism is a very germane issue of federalism as it determine the manner machinery of government operates at different levels of governance. Finance has been the most essential ingredient in running of government, this has make contest in federalism a unique characteristics which mostly occurred in fiscal relation. Federalism has been known as centralized and decentralised levels of decision making. It means constitutional division of power between federal and constituent units. In fact, the federal structure and the composition of any society define its governance and administrative structure.

Fiscal relation discusses how resources is allocated among the three governmental levels to carry out government responsibilities. According to Ajibola (2008), fiscal federalism is an

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intergovernmental relationship that specifies the roles and duties of each level of government as well as the financial resources needed to accomplish the goals. In essence, the sharing formula must be generally accepted by all stakeholders in the federating units.

The variation of federalism adopted by different federations also determine the type of relationship among the federating units as well as among various ethnic groups. Ekpo (2004) asserted that Nigeria federalism evolve through economic, political, constitutional, social and cultural development, these have really influenced the nature and character of intergovernmental relations in Nigeria. The need for fiscal federalism in Nigeria are not limited to reduce excess load of federal government in the area of provision of social amenities; increase the autonomy of constituent units; ensure correspondence between federating units financial resources and expenditure; promotes economic growth through policy measures that assist backward states and remove hindrances to development; guarantees efficient redistribution of income to achieve balanced growth and development; ensures effective and efficient administration of her large territory; gives room for variation in the production of goods and services among the regions or states (Ecoma and Ecoma, 2018).

In Nigeria federal system of government, three tiers of government of federal, state/region and local government emerged while the United States version of federalism comprises of federal, state, county (Nigeria local government version), townships, cities, school districts and special duties (Nwede, Nwali and Orga, nd). Nwede, Nwali and Orga (nd) stressed further that Nigeria arrangement defined power allotments with the federal government wielding overriding status above the component units while the United States maintain the coordinated stature.

Since the military era, Nigeria's fiscal relations have been marked by constant dispute since the suspension of the constitution led to an overconcentration of power and resources at the national level, to the detriment of the constituent units. Constitutional fiscal relationship in Nigeria has put the federal government at the centre of the resources thereby making component units (state and local government) mere appendage of the federal government in a carefully concealed master servant relationship. This is couple with unstable and unacceptable revenue allocation formula which has not be able to achieve the objective of fiscal relation in the country.

Sadly the domineering mentality has make the central holding too much power while the constituent units depend solely on the centre to survive. The progression was carried over by succeeding democratic governments and reached the fourth republic. This has led to agitation of returning to true federalism to re-ordering the relationship in distribution of powers

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and resources among the constituent units of Nigeria federation in spirit of true federalism that negate sentiments. In essence, the issue of revenue allocation is one of the biggest challenges Nigerian federalism is currently facing.

Objective of the Paper

The main objective of the paper is to access the current fiscal federalism relations and the antecedent effects of its challenges on sustainable development in Nigeria with intention to:

Conceptual Analysis

For clarification, federalism is a political arrangement in which power is shared between central government and constituent unit of the federation. Federalism according to Wheare (1963), is a political formula in which central and regional governments are each share government powers, within a sphere, co-ordinate and independence. Vincent (2001) was in agreement with the federalism definition of Wheare by characterizing it as a system of governance in which each level of government is coordinated within its own distinct area of authority along with freedom to exploit its independent sources of income. Modern theorists have recently flawed Wheare's definition of federalism for absolutely making the American type of federalism as an admittedly stereotype of federalism. Elazar (1977) pointed out that, as a result, federalism can only exist in settings where there is a high level of tolerance for variety and a readiness to engage in political conciliation even when the option to act unilaterally is available.

Federalism has the side effect of fiscal federalism. To effectively carry out the constitutional obligations of the several levels of government, the distribution of authorities and responsibilities in a federal system necessitates a corresponding division of resources. It determines working mechanism of government's administrative systems. Federalism-related concerns are also crucial. According to Ajibola (2008), fiscal federalism refers to the roles and obligations that different levels of government have in addition to the financial means to carry out their stated goals. It has to do with how the various levels of government in a federal system of government divide up tax revenue and operational duties.

Arowolo (2011) claimed that fiscal federalism is a basic normative framework for allocating duties to various levels of government and providing them with the proper financial tools to carry out their statutory roles. It is distinguished by its relationship to fiscal (finance), which includes fiscal policy, which is a government directive for managing the budget,

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particularly with regard to taxation and borrowing. According to Tella (1999), there are three theories that can be used to explain fiscal relationships, including the theory of fiscal relation, which describes the roles that each unit is expected to play in the fiscal allocation, the theory of inter-jurisdictional cooperation, this refers to the areas of shared responsibility by each unit; and the theory of multijurisdictional comity, each unit provides services which will benefit people within the sphere and using only such finance to finance it.

Sustainable development is diverse in meaning and in application due to the exposure and professional framework being used. Sustainability is defined as the possibility of the human and other life flourishing on the earth forever (Ehrenfeld, 2008). Development also means an increment in the quantity and quality of useable resources available for citizens of a define society (Emas, 2015). Development could therefore be a condition of life and goal with capacity to grow, change, and develop. Development is a process of targeted positive changes with the inclusion of goals and resources to achieve the objectives. In essence there must be a progressive improvement in quantity and quality of human and societal affairs. However, sustainable development is defined as the ability to protect the state's current resources for citizens to use collectively while actively working to preserve those resources for future generations (Mohammed, 2013). More emphasis was placed on it when Ojobo (2005) described it as the structural transformation of the economic system's production and distribution of inputs and outputs, as well as the continuous improvement of citizens' standards of life.

The aim of sustainable development should be within the purview of long-term stability of the social, political and economy of the nation. However, this can only be achieved through recognition and incorporation of social, political and economic concerns in the decision making process. Adebayo (2010) stated categorically that sustainable development is the effort of government to improve the living standard of people in a way as not to negatively affect the coming generation. The two words of the concept are independent of each other, as there can be no development without sustainability or sustainability without development. Development is considered to be sustainable when it broadens human choice in ways that increase inclusion, connectivity, equality, prudence, and security. It is therefore inevitable that sustainable development will take place in a country where the leadership is creative in both attitude and action, as well as in a country where peace reigns. The reality remains that sustainable development is the continuous exploitation of a country's resources to raise the standard of living of its population, both now and in the future. In establishing long-term scale of sustainability to meet the needs of the future generations, intergenerational equity is apt.

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Nigeria Fiscal Federalism and Its Politicization

In every federal administrative system after the Second World War, finance has become the most important policy problem in IGR. The idea of "fiscal federalism" therefore refers to a financial arrangement between the various levels of government that permits the performance of significant fiscal functions at all levels of government. In essence, fiscal federalism stipulates how to allocate revenues. Therefore, the term "revenue allocation" refers to the process of using a constitutionally defined formula to share the nation's financial resources among the various levels of government in the federation with the overall goals of promoting national cohesion, reducing inter-governmental conflict, and fostering economic growth and development (Danjuma 1994).

The allocation of resources in Nigeria is based on the three principles of constitutional supremacy which define the right of each level of government of the percentage accrue to each, and right to tax certain items for overall interest of the nation; sharing formula to guarantee adequate stability in every level of government; and the responsibilities of each units to match up with the allocated resources. Vertical or horizontal fiscal relationships are also possible in fiscal federalism. The horizontal principle is a type of revenue system that deals with the distribution of revenue among state and local governments, whereas the vertical principle is a type of revenue system where the federal government retains some of the federally collected revenues as its independent revenue to be paid into the federation account for distribution among the tiers of government in accordance with an agreed-upon formula. With this type of revenue structure, factors like land mass, population, the number of local governments, etc. are taken into consideration. The following revenue allocation principles have been adopted in an effort to address the challenges of fiscal federalism in Nigeria:

Principle of Derivation:

This principle is founded on the idea that each state's share of national revenue is determine by the contribution of the respective states to the total revenue. It is known as an equity system, in which each state get what each put in. In essence, a portion of the resources that come from a certain location are assigned to that area. Since the more developed states will contribute more to the federation account, starving the uneconomically viable states of development. This principle was challenged since it makes rich states richer. Otherwise, it is viewed as a development concept since it will encourage states to pursue ambitious revenue-generating strategies and lessen their reliance on the federal government.

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Principle of National Interest:

This idea is founded on the requirement to advance progress, develop states, and foster a sense of federationalism. This is significant in light of the fact that many of Nigeria's states are not economically viable. Oil-producing states also criticized this idea, branding the northern states as parasites. State becomes redundant and dependent on monthly funding as a result. Glorifying local government would lead to demands for state establishment due to distribution of what was once referred to as common wealth.

Principle of Independent Revenue:

The notion of independent revenue is based on the federal government's discretion in allocating required money to state and local governments. It facilitates the superfluous transfer of funds to the federal government's coffers in order to carry out her nefarious ambition to pilfer money and as well manipulate elections. Experts challenged the idea that Nigeria's federal government's discretionary transfers of revenue to states and local governments are below international standards. It will increase aspirations for the presidency and make elections more violently compromised.

In order to develop a practical formula for Nigeria, a number of revenue allocation commissions have been established by succeeding governments. In the table below, the principal recommendations of each commission from 1946 to 2009 are summarized.

Recommended Criteria for Revenue Sharing by Fiscal Commission from 1946 to 2009.

SN	Commission	Year	Recommended Criteria
1	Philipson	1946	Derivation and Even Progress
2	Hicks Philipson	1951	Derivation, Need, National Interest and Fiscal Autonomy
3	Chicks	1953	Derivation and Fiscal Autonomy
4	Raisman	1958	Need, Balanced Development Basic Responsibilities
5	Binns	1964	Need and Financial Comparability
6	Dina	1968	Derivation, Balanced Development, Needs, and Minimum National Standard
7	Military Decree	1968-76	Equality of States and Population
8	Aboyade	1977	Equitable access to development opportunities, a national minimum standard, independent revenue efforts, absorbent capacities, and fiscal efficiency.
9	Okigbo	1981	Minimum Duties of Government, Population, Social

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			Development, Internal Revenue Effort, and Equitable Access
10	Decree No 36	1984	Similar to Aboyade
11	Danjuma	1988	Equality of States, Population, Social Development Efforts, and Land Mass,
12	NRMAFC	1989	State equality. Land Mass, Internal Revenue (Tax Effort), Social Development Factors, and Population
13	Decree No 3	1992	Similar to the above

Source: Otaha (2010), Oladoyin (2012) and Omodero, Azubike and Ekwe (2018)

The impact of a particular "revenue allocation structure" on the character of federalism, according to Danjuma (1994), is a key issue in the political compromise surrounding revenue allocation concerns. The former President of Nigeria, Chief Olusegun Obasanjo acknowledged that “over-dependence on oil revenue is the cause of the unnecessary division amongst Nigerians. A situation where over 90% revenue comes from one section of the country and what goes to the same is peanut (13%), while the remaining is left in the federal pool which is divided amongst the whole constituent states and local governments on an almost equal basis, this is an irony. it is therefore divisive, and must be discouraged” (Idada, 2004). The most important clause in the constitution is that “the principle of derivation shall be constantly reflected in any approved formula as being not less than 13% of the revenue accruing to the Federation Account directly from any natural resources” (Umukoro and Okon, 2008).

Thus, Nigeria has been quite concerned with the search for a broadly agreed formula for revenue allocation. Any fiscal federalism must have an appropriate distribution of resources and responsibilities among the levels of government in order to survive and ultimately succeed. This aims to promote resource efficiency while minimizing disparities in the treatment of people and between various states (Nnamdi, 2009). The 1946 Richards constitution's provision of internal autonomy to the Regions and the ensuing division of duties between the federal and regional governments served as the impetus for Nigeria's exercise in income allocation. Since 1946, there have been numerous ad-hoc revenue allocation commissions on the subject. All of these initiatives have not had the desired effect that Nigerians expected.

The pre-independence fiscal commission was focused on preserving the strength of the federal government while restricting the amount of revenue that could be allocated to the component states. In support of this, Onwudiwe and Suberu (2005) emphasized that the general consensus that characterized the process of development of the revenue distribution principle was broken by the concurrent entrance of oil and the military in revenue allocation politics. The

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federal government acquired full tax authority over mining with Decree No. 13 of 1970; in fact, it now has exclusive authority to collect and share oil revenue. With Decree No. 9 of 1971, which granted it exclusive rights to offshore oil revenues, it increased its power.

The states with oil resources lobbied for a bigger share of allocation through the derivation principle, while the states without oil resources opposed it. This report questions whether the various factions' requests for allocation are really for their states' development or only for personal enrichment. Nigeria will eternally stay in a condition of fiscal confusion until a clear-cut technical blueprint that will be all-inclusive and promote fiscal efficiency, equalization, and autonomy is developed due to the inefficiency and rejection of the fiscal policy followed by previous regimes in that country. The political unrest is also a clear indicator that Nigeria must transition back to a real federal system, where each level of government is free to operate independently and at its own pace. In spite of this, the problem of fiscal federalism continues to be a ticking time bomb that may eventually detonate and destroy the already shaky foundation of Nigerian federalism.

Financial Autonomy and Federalism in Nigeria

There is significant confusion as to what autonomy means which is partly due to its different as well as different background of users. However numerous scholars and government functionaries make it more confused to either themselves or audience, but costly assumed their audience understand the concept. However, majority of the scholars identify with its etymologic background. Autonomy is derived from two Greek words “auto means self or oneself, and nomos which means law or rule”. Conceptually, autonomy means right to make own laws or to rule over oneself according to one’s own law or rule. According to Lapidoth (1997), autonomy is the trait of having the freedom to decide or behave as one sees fit in particular circumstances. In political literature, the concept of autonomy is used to denote independence, self-government, self-determination, self-direction, self-reliance, and self-legislation.

Considering the meaning of autonomy and federalism and merge the notions of both classical and modern theories to get adequate governance, it then become very difficult to arrive at complete autonomy within the sovereign state like Nigeria. Absolute autonomy for either state or local government which politically mean sovereign state or local government within one sovereign nation. Then the essence of federalism will be defeated. The argument on autonomy of federating units is for the constituent units to be autonomous at least to a significant degree and cease to be a mere appendage of the centre. Each unit should be allowed to financially dependent and cooperatively develop at its own pace with available human and

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material resources. Nwabueze (1983) defined autonomy in a federal setting to mean a situation each government enjoys a separate existence and independence from control of others.

Fiscal federalism significantly described revenue allocation in the federation. It is an expression of balance of social and political forces within the federation. In view of Nwabueze (1983), autonomy would only be meaningful in a situation whereby each unit of federation is not constitutionally bound to accept dictation or directive from others. As established, absolute autonomy is imagination due to interdependence of the three levels of government, but there must be demarcation of arena of operation among the trios. In essence, autonomy and intergovernmental relation in federalism means relative independence of states and local government in a federation. Wheare (1963) argued that state and local government become subordinate in the relationship by applying for grants and subsidies from the federal government, as he who plays the pipe dictates the tune. Financial subordination therefore make the end of federalism.

For preservation of the spirit of federalism, each federating units must be empowered by the constitution to raise and control its resources either through taxes, business, natural resources or borrowing to finance its own services without one been lord over others. No doubt the area of interference or relations will be maintained in a constitutionally coordinated manner. According to Ozor (2005), different parts of the federation are given the authority to tax, collect, and spend funds in order to fulfill their statutorily obligations. He continued by saying that the main contributions to the federal government's general fund come from citizen taxes. A truly federal system of government must adhere to the principles of fiscal independence and integrity in order to survive and continue (Okoli, 2004). Okoli (20040 stressed further that each level of federal government must as a matter of necessity has a minimum source of independent revenue under its full control. The table below depicted the distribution of expenditure responsibilities among the federating units.

Nigeria Expenditure Assignments

SN	Tier of Government	Expenditure Category
01	Federal	Defense, shipping, federal trunk highways, aviation, railroads, telephones, telegraphs, and telephone exchanges, as well as police and other security agencies, are all included. Regulating interstate trade, telecommunications, and labor; minerals and mines National statistical system, national parks, social security,

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		and insurance basic requirements for education at all levels; Water resources have an impact on multiple states.
02	Federal-State	Monuments and antiquities; electricity; development of industry, commerce, and agriculture; research in science and technology; statistics and surveys; technical, post-primary, and university education; Social welfare and health.
03	State-Local	Development of agriculture and non-mineral natural resources; health services; primary, adult, and vocational education.
04	Local Government	Planning and development for the economy; cemeteries and burial grounds; homes for the poor and disabled; markets; sewage and garbage removal; roadways, drains, streetlights, and other public amenities.

Source: 1999 Constitution

The firmer the foundation of the federation and the better its chances of surviving are, the higher the fiscal independence through independent revenue among the constituents. As a result, each level of the federation needs to be able to identify an independent source of income that can support both its financial demands and its prospective economic growth. The power of allocation in Nigeria resides in the centre with the grip of power over the entire fiscal process and this has been consistently threatened the peace of the federation. This power struggle manifest mostly between federal and state government ruling by different party. Consequently, this lack of financial autonomy has been the root of frequent unresolved question of intergovernmental fiscal relation in Nigeria, and has hinder growth and sustainable development of the federation. The type of lopsided federalism in Nigeria in which the central control the resources of the federation at the detriment of other units will definitely destroy the good intention of the constituent units as it is in the present state of Nigeria. In addressing this incessant challenges, state and local government autonomy is imperative and effective fiscal federalism.

State and most especially local government are established to achieve a number of purposes in Nigeria among which are bringing government nearer to the people, promoting even and rapid development, recognising and maintaining cultural diversity, training ground for political leadership, provision of social services at appropriate level, exploitation of local resources, delegation of duty (decentralization purpose), healthy competition among various states and local governments and comparative economic advantage. To achieve all the above

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purpose, there is need for fiscal federalism for the constituent units to annex the needed resources and power. Couple with the strong fiscal federalism is the uniformity in structure and functions of states and local government within the federation. The uniformity as guided by the constitution is for states and local governments to know the area of their influence as well as their limitation. The pace at which each state and local government operate cannot be hinder by the uniformity, but human and material resources available and how these resources are utilized.

The 1999 constitution of the Federal Republic of Nigeria (as amended) recognised only two legislative powers which are national and state assemblies as provided in section 4 (CFRN, 1999). According to Ojirika (2013), the power of local government legislature to make law is subject to the power of state house of assembly. Section 7(1) further empower state to ensure the existence of democratically elected local government activities, while section 8 gives state power to create local government subject to the approval national assembly. In view of the above constitutional issue, federalism can be said to be in jeopardy in Nigeria. The 1999 constitution which is a military paper has made the relationship a master slave or superior subordinate in nature. The spliting of states and local governments into numerous smaller fractions further weaken the constituent units against the centre. In Nigerian federalism, authority and power are distributed equally from top to bottom, making the federal government the more powerful party. State retained the middle class with restricted constitutional right to challenge the centre in the court of law.

State-local government fiscal relation is worse than that of federal-state. As explicated above, state has some level of autonomy, while local government survive on the mercy of state government. The said 1999 constitution recognised local government as a third tier of government as it has been established in 1976 local reform; sadly it did not give any constitutional role or power. The constitution worsen the development by subjecting the local government to the will of state. Further reducing the local government to an appendage of state is the state-local government joint account. In operating the joint account, state pay salary not constitutionally allocation due to the local government. Constitution of Nigeria has made local government a subordinate partner that derives its existence from the law enacted by state government. Conclusively, Nigeria operate semi-autonomy for state while local government did not have any autonomy.

Challenges of Fiscal Federalism in Nigeria

A number of constraints were noticed to hinder fiscal system in Nigeria, and these must

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be dealt with in order to achieve an effective and efficient fiscal system. Among these are the following, as identified by Ajibola (2008) and Ewetan (2012):

1. **Over-centralization:** The intrusion of military into corridor of power in Nigeria which usually lead to unitary federalism and consequently imposition of centralized unitary system on Nigeria federation gave birth to poor fiscal management coupled with low economic performance. This military pattern was passed down to democratic rule via various military constitutions, including the 1999 constitution that ushered in the fourth republic. Revenue allocation has been a tool in the hands of the elites especially at the central government to satisfy their un-quenching appetite for money. Couple with the above is the incessant creation of states which are absolutely dependant. This lead to bloated fiscally budget as many of the state were not fiscally viable.
2. **Mismatch between the Revenue Resources and Functions:** The revenue allocated to lower tiers of government is lower compare to their responsibilities, and this has hinder their rapid development while the excessive allocation of federal government usually lead to mismanagement manifested in embarking in white elephant project and corruption.
3. **Overdependence on Oil**: This is another problem that has impacted negatively and posed serious challenges on the issues of fiscal federalism in Nigeria. Neglecting other areas of revenue by both the federal government and the constituent units made the burden on oil to become heavy. This imperatively lead to budget deficit the country is witnessing. State that supposed to create wealth and be economically buoyant has become a cooperate beggar who only rely on monthly allocation (salary) from federal government income generated majorly from oil revenue.
4. **Economic and Financial Mismanagement**: This is widely reflected in corruption and financial impropriety of government functionaries. The vices has adversely affected Nigeria fiscal policy and development of the federation. This is majorly manifested where Chief Executives of Federal, State, Local government and leaders of various ministries are corrupt and self-centered. There has always been the struggle on what percentage goes to each federating unit without proper and adequate public accountability. The same set project are yearly repeated and make provision for in the budget without the expected result.
5. **Inconsistent Formula**: Lack of stable and consistent revenue allocation formula has affected fiscal federalism. Nigeria has become a copycat in revenue allocation without proper research to get the best formula that suit the situation of the country. Except on a couple of occasions, Nigeria primarily relies on ad-hoc committees to create its budgetary strategy.

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The conflicting revenue allocation formula introduced by consecutives administration has not let the country having clear understand of the fiscal policy and instructionalise workable fiscal federalism.

CONCLUSION

The paper has identified major issues of fiscal federalism in Nigeria federation. It identified that the relationship between federal government and component units is superior subordinate in nature, and this has made the component units to become federal government appendage. Nigeria has jettisoned the practical practice of federalism as designed by the classical and the modern models. The past and present revenue formulas in Nigeria are bedeviled with problems. The central problem has been that development benefits expected from resources rich economy like Nigeria has not materialized. This arose from the way revenue generated from the vast resources here been utilized. The fiscal federalism is centralized as noted by the paper. The bloated percentage of federal government allocation which is at the detriment of the constituent units with absolute low percentage is a mismatch, hence less impact on people. The lopsided arrangement of fiscal federalism is detrimental to operation of state and local governments development drive. The paper has well identified the challenges of fiscal federalism and these need urgent attention.

Recommendations

Given the foregoing challenges identified in Nigeria fiscal relation and other issues, the paper therefore recommends the following panacea:

1. Fiscal federalism should be reviewed and respected tailor toward true federalism. Power and resources need to be decentralised to enable other component units survive and be autonomous to some extent.
2. Allocation of resources must match functions of each level of government. The need to monitor the expenditure assignments as well as the fiscal jurisdiction of the three tiers of government arise. Each unit must justify whatever it is getting from the national purse. Justifying the financial allocation with responsibilities will invariably lead to rapid development and as well curb mismanagement of funds.
3. Economy should be diversify to discourage total dependence on oil. Other sector like agriculture and industrialisation should be focused so as to reduce the burden placed on oil. Administration of local taxes should be improved, ineffective local taxes should be eliminated, and untapped tax potentials should be identified. Macro-economic stability is

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key to saving and investment which will invariably strengthen the already weak and indebted fiscal federalism.

4. Corruption and mismanagement of public funds should be discouraged. Transparency of all government dealing will aid the fighting of corruption. Fighting corruption should not be selective; therefore party, ethnic and religion affiliation should not be parameter, but a conviction by a qualified court of law. Aiding this fight, independent of judiciary is key.
5. It has been noted that majority of Nigerians are no longer in support of the current federal domineering fiscal federalism at the detriment of component units. There is therefore need for appropriate revenue allocation authority to produce an acceptable equitable revenue formula that would be in the best long-term interest of a stable Nigerian federation.

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