

NIGERIAN AND THE CHALLENGES OF FISCAL FEDERALISM

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Abstract

The Nigerian federalism has been facing a lot of challenges on how to share and disburse national resources in terms of what goes to each of the component units of the federation. Several efforts were made towards having an acceptable revenue allocation formula yet, an acrimonious agitations abound. This is not only in Nigeria but also in so many federal states. In Nigeria, the challenge of fiscal federalism is not only on how to allocate revenue from the central government to units but also, on how to generate the revenues. Today, every component unit of the federation is dissatisfied with the revenue sharing formula. Currently, the 13% derivation allocated to oil producing states from the revenue generated from oil has been contentious even among the beneficiaries, which lead to the agitation for resource control. The intense politics associated with revenue generation and allocation has been a serious challenge to the stability of the nation. What are the factors responsible for this? How can these issues be addressed, so as to achieve a stable federal state in Nigeria? This paper will employ a descriptive and analytical method to interrogate the factors responsible for this ugly challenge. To properly have a grasp of the concept of federalism.

Keywords: Federalism and Fiscal Federation

Introduction

Nigeria as a federation has been faced with the challenges of how to share revenue generated among her tiers of government since colonial era. Today, Nigeria operates a federal system of government with a federal government, thirty-six (36) states and FCT and seven hundred and seventy-four (774) Local Government Areas. In such a multi-level arrangement, fiscal responsibilities are vested in the central, state and local governments. This gives rise to what is term fiscal federalism.

Fiscal federalism is essentially about the allocation of government spending and resources to the various tiers of government. Easton, (1965), defines politics as the powers “the authoritative allocation of values for a society”. This definition emphasises that politics has to do with the distribution of resources in the society. In Nigeria, the decision as to who gets what share of the federally generated revenue is very problematic.

Over the years, there has been struggle over the control and allocation of federally generated revenue between and among the various federating units or states that make up the country. The decision as to who gets what share of the federally generated revenue became very problematic when oil revenue assumed the most prominent source in Nigeria fiscal federalism has emanated

from geographical, historical, political, economic, cultural and social factors. The point remained that in all these, fiscal arrangement that can guarantee peaceful coexistence and development has remained a controversial one.

It is instructive to note, that in all federal systems, there are arrangements on how state revenue is shared among component units. Watts (1997), in support of this view, argues that;-

Federal finance is an extremely importantly and controversial subject because; first, it affects the allocation of administrative responsibility. Secondly, the financial resources available will place limits on the scope of administration which either levels of governments is able to sustain. Thirdly, it affects the political balance because whichever level of government has the major financial resources, finds in its hands the means of political control; fourthly, it is significant also because the assignment of fiscal and expenditure powers will determine which governments are able to use these instruments to control the economy.

The observation of Watts is instructive particularly in Nigeria. It is true that federal finance is controversial subject. It is also true that it affects the allocation of administrative responsibilities. The percentage of revenue allocation to tiers of government will definitely affect or influence its performance. The assumption of Watts that fiscal power and revenue allocation will determine the tier of government that controls the politics and economy is relevant in our situation in Nigeria.

Nigeria, federal laws tend to give more powers to the federal government than the other units of the federation. In fact, there is an increased dependence of the sub-federal units on the federal government particularly for their finances. States and local governments are either given any strong fiscal incentive or encouraged to generate revenue internally.

In view of this, they are weak financially, and this cannot strengthen or guarantee fiscal federalism. As a result, there are discontentment, conflict and agitation by the states and Local Governments which regime the federal government for self-reliant.

Conceptual clarification of federalism

The term federalism is derived from the Latin word “feuds” meaning covenant. It is a political concept in which a group of members are bound together by covenant with a governing representative head. The term is also used to describe a system of government in which sovereignty is constitutionally divided between a central governing authority and constitutional political unit (e.g. States, L.G.).

Federalism is a system in which the power to govern is shared between national and States governments, creating what is often called a federation (Akindele and Olaopa, 2002).

Sagay (2008) conceptualized federalism as an arrangement whereby power within a multinational country are shared between a federal government 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 and with a will of its own apparatus for the conduct of affairs and with an authority in some matters exclusive of others.

It is also seen as a system of government whereby a number of states come together and agree to form a federation. that is, they agree to be under one central government while at the same time retaining some measure of autonomy. Here, the system allows not only one central government, but also state or regional governments to exist side by side. Hence the citizens are subject to two or more governments.

Akindele (2001) observed all federation were usually created by the processes of aggregation, disaggregation or by a mixture of both. According to K. C Wheare, (1979) federalism connotes a method of power division or power sharing in a political system. He is one of the classical writers on federalism. He wrote: "By the federal principle, it means that method of dividing powers so that central and regional governments are each, within a sphere, co-ordinate and independent" (Jinadu, 1979).

Wheare, has identify certain uncompromising qualities of a federal system:

- The division of powers among levels of government
- Written constitution showing this division of power
- Coordinate supremacy of the two levels of government with regards to their respective functions
- The powers to amend the constitution to be exercised by both levels of government acting in cooperation
- Existence of an independent judiciary or body to adjudicate disputes arising from clash of powers between the federal and state governments;
- Financial independence of both levels of government as "financial subordination makes an end of federalism".

However, Wheare, postulations has been criticised as been rigid, legalistic, inflexible, unrealistic and unworkable. He is also been accused of neglecting certain socio-economic, cultural and political factors that actually affect the dynamics of federalism.

Despite all these criticism of Wheare's, definition of federalism, his definition, remains the most classical and provide direction to discuss of most issues pertaining to federation.

For Livingstone (), he emphasized the role of economic, social, political and cultural factors in the formation of a federation.

Livingstone, () defined federalism as "a device by which the federal qualities of the society are articulated and protected" (Dare 1979). He also identified territorial demarcation of diversities as a distinguishing characteristic of federalism and notes that where the diversities are not territorialised, the system cannot be federal.

This view goes against the view of scholars like Otto Bauer and Karl Renner's notion of non-territorial federalism. For them, federalism is built on the personality principle, in which each individual should be able to declare which nationality he wished to belong and these nationalities would become autonomous (Liphart, 1977).

The concept of fiscal federalism

Egbe (2005), states that fiscal federalism in a federal state connotes the management put in place to regulate money transfers between the different tiers of government, from federal to the states, from federal to the local governments and from the states to the local government councils e.g in Nigeria.

Fiscal federalism is also concern with the powers to generate revenue and to spend some and the perceived equity in all the transactions.

Three reasons were advanced for the transfer of revenue resources from higher to lower levels of government in a federation. These are for the purpose of balancing, equalisation and stimulation (i.e. incentives).

The sharing formula of revenue for every federal state is clearly spelt out in the constitution and other subsidiary, laws of the states or the federating units. In Nigeria, fiscal federalism involves sharing of resources between the three different levels of government; federal, state and local governments. The objective of this is to ensure equal opportunity, even development and equity for the federating units.

It is important to note, no matter the constitutional provision on resource sharing, among the federating units, it is impossible to satisfy everyone in terms of provision of social welfare, efforts must be made by leaders to at least secure some consensus in most matters in order to get the system working. It is obvious in any federal system in which the basic norms of federalism are ignored, conflict are bound to occur which can result to crisis and political instability.

Olaloku (1979) asserts that

....in most, if not all federal countries, one of the most constant sources of intergovernmental wrangling's centres on the problem of securing adequate financial resources on the part of the lower levels of government to discharge essential political and constitutional responsibilities.

For Olaloku, for a federal system to achieve peace and unity, the powers to tax and collect revenue should be shared on an equitable basis among the federating units in accordance with, among other criteria, the principles of comparative advantage, administrative efficiency and proximity to the sources.

Theoretical frame work

The equilibrium theory is adopted as a guiding theoretical frame work in understanding federalism as a political concept. This theory has Jerfferson as it major proponent. The basic theoretical postulation of the equilibrium theory; is for federalism to work, there should be socio economic balance among the component units that makes up a federation. Under a federal system of governance according to this theory of equilibrium, resources should be equitably shared among/between the component units. This will ensure an equilibrium i.e. stability and relatively equal development among the component units. This theory is relevant in Nigerian situation.

Historical evolution of Nigerian federalism

The background or the foundation for Nigerian federal system was laid between 1914- the amalgamation period and 1919 by Lord Fredrick Lugard.

To properly understand the evolution of Nigerian federalism, scholars has classified the history into phases. The first phase is the (colonial phase). This phase started with 1914 amalgamation of southern and northern protectorates and the colony of Lagos by Lord Lugard. This period was considered the period when the seed of federalism was planted in Nigeria. The second phase is the period for the formation and fusing of educated and traditional elites entrenching federalism in the colonial constitutional development in Nigeria. The first formal efforts that were made to create a federal system of government in Nigeria were in the constitution of the following colonial governors- Sir Arthur Richards- 1946, Sir Macpherson 1951, and Sir Oliver Lyttleton 1954. The 1946 constitution, recognised three major ethnic groups zone of influence- the Hausa/Fulani (North), Yoruba (West) and Igbo (East) regions.

The 1951 and 1954 constitutions maintained the regional ethnic federal structures.

The last phase in the evolution of federalism in Nigeria is 1966-1967. This phase was characterised by the evolution of concrete federalist structure. Here we have the federal government and three regions of east, west and northern Nigeria under a prime minister and premiers respectively (1946-1954 constitutions). This was the pre-independence federal structure.

In 1960-1967, the four regions of eastern, western, mid-western and northern Nigeria under premiers and a prime minister was the head of the federal government in Lagos.

The federal structure in Nigeria has gone through changes in size and composition. In 1967, twelve (12) states was created from the four regions by General Yakubu Gowon, 19 states during Murtala Mohammed 1975; here, 7 new states were created in 1987, General Babangida added two new states i.e Akwa Ibom and Katsina to have 21 states.

In 1991, additional nine (9) states were established by General I. Babangida bringing the number of states to 30. The nine new states were Abia, (carved out of Imo) Anambra State (carved out of old Anambra state leaving Enugu as a state of its own), Kebbi (carved out of Sokoto State) Kogi state (carved out of Benue and Kwara State, Delta (Carved out of Bendel State) also giving raise to Edo State. Osun state (carved out of Oyo State) Taraba (carved out of Gongola State) Jigawa State (Carved out of Kano) Yobe state (Carved out of Borno State).

In 1996, additional six (6) states where created by General Abacha, bringing the number of states in Nigeria to 36. The Six new states were Nasarawa (carved out of Plateau state) Ekiti state (carved out of Ondo state) Ebonyi state (carved out of Enugu and Abia State) Bayelsa state (carved out of Rivers state) Gombe State (carved out of Bauchi state) Zamfara state (Carved out of Sokoto state). It is also important to note, that Nigerian federal structure has 774 local governments as recognised by the constitution as the third tier of government. It is instructive to note that, most of the states and local governments are not viable by any criteria used and they depended solely on the federal government for their survival. These, made the federal government too powerful which violate the fundamental principle of federalism.

In Nigeria, our federalism is threatened by the continued crisis of resource allocation between the components units-the federal, states and local governments. This is despite the existing policy in revenue allocation as granted by the constitution.

The basis of fiscal federalism in Nigeria

Fiscal federalism in Nigeria has constitutional basis. The main objective of any government anywhere, after provision of security of lives and property, is the provision of public goods and services to the people. In section 16(1) of the 1999 Nigerian Constitution this objective is clearly articulated through the provision that the state shall;

- Harness the resources of the nation and promote national prosperity, and an efficient, a dynamic and self-reliant economy;
- Control the national economy in such manner as to secure the maximum welfare, freedom and happiness of every citizen on the basis of social Justice and equality of status and opportunity.

Section 16(2) a-d, emphasizes... ensure that resources of the nation are harnessed and distributed as best as possible to serve the common good and that the economic system is not operated in such a manner as to permit the concentration of wealth or the means of production and exchange in the hands of a few individuals or of a group.

In section 162 (1-a) provision was made for the mode of distributing the revenue that goes into the federation account among the various tiers of government and the Judiciary. This section, does not say anything about the method of generating the revenue. However, reference was made to the word "harassed".

The legal basis for revenue derivation and revenue allocation in Nigeria

Fiscal federalism, deals with both revenue Derivation and revenue allocation. Revenue derivation simply connotes, the generation of revenue. It is important to note, that the allocation of revenue is only possible after generating the revenue. In Nigerian federalism, where are these revenue generated or collected from? The answer to this question can be found in the exclusive legislative lists of the federal and concurrent legislative list of both the states and federal government. While, Local Government sources of revenue are contained in the fourth schedule of the 1999 constitution of Nigeria.

The legal basis of the revenue sources of the three (3) tiers of governments in Nigeria are contained in section 162 (10) a,b,c, 163 (1) and (2).

It is also important to note, a critical examination of the revenue jurisdiction of the 3 tiers of governments as contained in 1999 constitution has shown that enormous power was vested on the federal governments to the detriment of states and local governments.

On revenue allocation, Danjuma, (1994) said revenue allocation refers to the mechanism of sharing of a country's finances among the three tiers of government in a federation. In Nigeria, this involves sharing of national revenue among the three tiers of government federal, states and local governments.

The legal basis for revenue sharing is provided in section 162 (1) to (7) of the 1999 constitution. It is important to note that historically, as nine (9) ad-hoc commissions on revenue allocation were setup to address the challenges of revenue allocation in Nigeria. Egbe (2005), observed that revenue allocation and even generation is characterised with a lot of inter-governmental problems.

Problems of fiscal federalism in Nigeria.

A major problem with Nigeria's federalism is the imbalance in the fiscal powers of the federal and the subordinate governments i.e. states and local governments. Fiscal powers are highly concentrated on the federal government to the detriment of the states and local government. Here, the states and local government has limited resources of internally generated revenue. According to Fajana (2001), in 1993, the total revenue of the states of the federation amounted to 31.8 billion naira as compared with federal governments retained revenue of 51 billion naira. It is also observed, that the limited sources of internally generated revenue led to over dependence of states and local governments on the federal government which is against the principle of federalism.

Lack of diversification of the revenue based in Nigeria is a challenge confronting Nigerian federalism. This can hinder a better inter-tier allocation of revenue and by implication, discouraging the economic growth and development of the component units.

Fiscal federalism in Nigeria is characterised by a high degree of non-correspondence between the revenue capacities and expenditure responsibility among the component units of the federation.

The unequal and inefficient criteria and principle for revenue sharing among the tiers of government has been a source of serious crisis in Nigeria Federation. The complexity of this issue is reflected in the large number of the criteria and principle that have been adopted and applied in the country.

The non-quantifiable nature of some of the criteria adopted for sharing of revenue has been another problem in revenue allocation. For example, how can one quantify balanced development; basic needs; land mass and erosion issue in revenue allocation in Nigeria, where accurate data is absent?

Undue politicisation of fiscal policy in Nigeria is another major problem. Every component unit want to maximise their gains in terms of the revenue coming to them. This can lead to overheating of the polity and unnecessary crisis.

The present demand for resource control by the people of the south-south and the opposition from Northern political leaders is a clear case in point. On the issue of agitation for resource control by the South-South geo-political zone, the northern elites have consistently kicked against the agitation. For them, any attempt to allow states to control their own resources is a recipe for disintegration.

Bashir Tofa, who was a delegate at the 2014 National conference from Kano and a respected personality from Northern Nigeria, faulted the call for resource control and the claim that oil belongs to states in the Niger-Delta. He averred that if Nigeria will stay together forever, then it is not in the interest of any region to talk about resource control. He argued that:

This oil is not their own because 90% of Nigeria's oil resource are in the deep sea, which is part of Nigeria's territorial waters and not

contiguous to any state. Oil within the states is very small-10%... the 90% belongs to all Nigerians and should be shared on the formula that is acceptable to all according to international Law (Tofa, 2014)

The former Niger state governor – Babangida Aliyu- the then chairman of Northern Governors forum, while inaugurating the advisory council of sir, Ahmadu Bello memorial foundation in Abuja ascribed the underdevelopment and poverty of the Northern Nigeria to the poor allocation in the 19 states in the region receive from the federation account. He equally sees the 13 percent derivation allotted to oil producing states as cheating on the Northerners and therefore, called for its scrapping (Fabiya, 2012).

In the same veins the former governor of Central Bank of Nigeria, Sanusi Lamido had claimed in an interview with Financial Times of London, that the Low financial allocation to Northern states was the major reason for the underdevelopment and activities of such groups as Boko Haram (Adegbam, 2013).

To further show the undue politicisation of fiscal policy in Nigeria, some Southerners such as Mujahid Asari-Dokubo- the founder of Niger-Delta Peoples Volunteer Force (NDPVF), see the call for an adjustment of the revenue formula by some Northerners to be unfair and insulting to their region.

Asari declares that:

I have said it before and I will continue to reinforce it Nigeria is a forced union and as such cannot stand the test of time. Very soon, we in Niger Delta shall commence what we call operation occupy Niger Delta resources... we shall lead a protest to the president with a warning that no dime of our oil money should hence forth, be sent to the North... (Tribune.Com.ng 2012)

All the aforementioned politicking, does not give room for a stable federalism that can usher socio-economic development and national unity.

It is important to note, that no system of revenue allocation in any federation can be suitable for all times (as some old revenue sources decline, while other new sources emerge. And new problems create fresh expenditure responsibilities).

Conclusion

In conclusion, the quest for national unity and cohesion is highly needed in order to make our federalism work. This can only be achieved by having a patriotic leadership, which is egalitarian, incorruptible and has fame believe in united Nigerian project.

Recommendations

- There is the urgent need to address the imbalance in the fiscal powers of the federal and the subordinate governments, e.g. States and Local government. The fiscal power should be

decentralised with more powers granted to states and local government. More sources of revenue generation by state and local government should be granted and allocation of funds be improved.

- More equitable and acceptable revenue allocation formula should be introduced to ensure that all component unit of the federation are carried along. The principles of derivation; population; and needs be strengthened.
- The need for periodic review of our revenue allocation formula is highly recommended. This is imperative to address emerging needs and circumstances of the federating unity.
- The need to keep accurate statistic data on population of every component unity as well as, environmental and ecological challenges of the component unit is important for sake of equitable allocation of funds to address such needs.
- Sincerity in leadership and fairness will reduce under politicisation of our fiscal policy in Nigeria. Addressing the problem of structural imbalance in our federal structural e.g. by having equitable number of states in the six geo-political zones in the country can reduce the fear of domination which contributed to unnecessary politicization.

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