FISCAL FEDERALISM AND NATION BUILDING IN NIGERIA: CHALLENGES AND PROSPECTS.

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Abstract

The need to spread development, and advance the general welfare of the citizenry, plays a significant role in the evolution and practice of federal system of government (federalism). In Nigeria's case, the problem of inter-fiscal relations has always raised severe challenges. The problem was provoked by a number of factors including over dependence on statutory allocations from the centre; and lopsided federal system; that both the colonialists (Britain) and subsequent governments including the repressive military system fostered. The current democratic dispensation has also not done much to depart from the old order. This situation is worsened today by challenges of wide spread corruption, escalating poverty, ethnic politics, diseases, ignorance, electoral violence and rigging. There are also agitations for resources control, and power shift. This paper canvasses the view that for proper fiscal federalism to emerge in Nigeria, there is an urgent need to decentralize the resource base of government, encourage entrepreneurial spirit, freedom of information, and ensure equitable allocation of resources to all tiers of government to match their responsibilities.

Keywords: *Fiscal Federalism, Nation Building, Challenges, Prospects.*

Introduction

The challenges and prospects of fiscal federalism and nation building in Nigeria has been a matter of serious concern to scholars. Federalism is a system of government where revenue and expenditure functions are divided among the tiers/levels of government Onwudiwe (2005:7). This division is usually done to enhance effective provision of public goods and services at different levels to the citizens. It is noteworthy that revenue generation and spending responsibilities, intergovernmental transfer and the administrative aspects are usually key issues involved in fiscal federalism.

Writing on federalism in Nigeria, Tatalo (2009:3) described Nigeria as a living lie According to him, Nigeria has never been federalism, nor has it ever been run on principles of federalism, except for a very brief period. On his part, Alamu (2009:3), saw Nigeria as is a bogus amalgam of conquered territories held together by force of arms. He observed however, that if the original hoax is cruel, living in denial ever since is even crueler to the captive and its tormented denizens. Nigerians are neither subjects nor citizens in the putative nation they have found themselves.

The problem of Nigerian federalism is rooted in its lopsided antecedent. Ifijeh (2010:5) argued that Nigeria is a product of forced marriage, and you cannot federate in absence offreedom. Genuine federalism can only come about when genuinely free people who have liberated themselves from tyranny, come together to collectively bargain about what powers to keep and what authorities to cede to the federal government. Thus, a genuine federalism is usually a bottom up, process, rather than a top down affair. In the Nigerian case, federalism was handed down and imposed from above by the colonial masters. The conquered people had no input or veto authority about how to organize themselves. This is why federalism in Nigeria has become a problem.

Nigeria's federalism evolved through the three basic stages. Three moments can be isolated from the lineage of metropolitan mendacity, starting from the era of Baron Frederick Dealtry Luggard and his infamous dual mandate, which was the original colonial nationalization for the enslavement of the natives. The dual mandate encourages forcible integration of the local economy into the global capitalist system for the mutual benefit of both countries. In reality, this is a charter of colonial plunder and expropriation, and it was to set the tune for the federal plunder of local resources in the post colonial Nigeria.

The second phase, according to Egwu (1993:51), was the very creation of northern Nigeria whose size dwarfs the combined size of the rest of the nation in a flagrant assault on the elementary principles of federalism, which holds that no one section must be large enough to threaten the rest of the federating units. The lumping together of the nation in this manner has been described by some scholars, as a colonial assault on political geometry and federalist architecture. This has made it possible for the North to politically dominate the country and to exercise its virtual veto power at critical moments in the nations' history.

Thirdly, the reason advanced for amalgamation in the opinion of Tatalo (2009:3), was an assault on the first principle of fiscal federalism and derivation. It was wrong for the northern region to be described as the beautiful bride who must be sustained with resources of the more vibrant and economically endowed South. This situation was described as a colonial anti federalist time bomb.

In addition to these wrong steps, the British imperialist had strictly ensured that there were no official contacts between northern and southern political elites. Such was the situation that when a northern delegation finally arrived Lagos in 1953/4, events swiftly deteriorated to mutual hostility and a poisoned atmosphere which set the tune for future engagements.

It was the ensuing contretemps which led the Sardauna of Sokoto to make his famous statement that the mistake of 1914 had been discovered; while on his own, Chief Awolowo, opined that Nigeria is only but a geographical expression.

Given this background situation prior to independence, it was envisaged that the entire Nigerian political elite will sit down to discuss the artificial nature of the nation bequeathed to them by the colonialists. Somehow Nigeria is still standing in one piece perhaps, due to the misunderstanding of the concept of federalism, rather than in its pure application. The situation compels us to take a critical look at Nigeria's federalism.

Conceptual Frameworks for Understanding Federalism

In some countries, particularly in new states, federalism is regarded as regionalism, ethnicity being the distinctive feature which delineates the units. Thus, as Awa (1976:2) observed, Nigeria, prior to the establishment of a twelve state structure in 1967, was anchored on regionalism because the three original units were broadly coterminous with the ethnic structure of the country. On the other hand, many founding fathers of federalism use the terms federal, confederal, federation, confederation and confederacy as interchangeable.

The American founding fathers, for instance, used the terms federal and confederal synonymously, defining a confederate republic as an assemblage of societies or two or more states. The essence of the federal system, they maintained is that the national government on the one hand and the state government on the other are autonomous in their respective spheres. By extension, each of the terms used implies a pact or treaty among independent states.
However, in some modern federations, the units were created more or less by a fiat of the founding fathers; the idea of a treaty linking together a number of regions applies. That is, once the units are created for the purpose of incorporating them into a federal system of government, these units assume a status of independence vis-à-vis the inclusive government.

The question therefore is what really is a federal system of government? Mason (1958:3) noted that American jurists had wrestled with this question and provided a basis for the formulation which K.C. Wheare made popular. John Marshall, an ardent nationalist read into American constitutional law a concept of federalism which magnified national power at the expense of state power. His view in 1819, that the constitution was established and ordained in the name of the people, and that it was not a compact among the state. It did not originate from the action of the people of the several states or their governments. The central government and the state, be maintained, confronted each other in the relationship of superior to subordinate.

Reflections on Nigerian Federalism

The opinion of Suberu (2005:3) is that federalism essentially is the approach to government that seeks to combine unity or shared rule with diversity or self rule. Its primary operational feature is the guaranteed territorial division of political powers between the common (central), and constituent regional or sub national governments, as well as the allocation of powers and resources.

Federalism in Nigeria can therefore be defined as the distribution of power between three levels of government within Nigerian territory. The citizens thus have three layers of loyalty, from the local, state and federal structure. The Nigerian constitution delineates the component parts of her federalism while the judicial branch has the responsibility to ensure that those components work in harmony. Federalism can serve as a principle for organizing a sovereign territory or as a restraint on the power of national government.

In the Nigerian federal system, each level of government derives its power from the constitution. However, what it implies is that, it generally involves all the intertwined powers and relationships between the federal, state and local levels of government. Federalism in Nigeria allows a government to function over a nation of diverse people and cultures. The structure of Nigerian federalism ensures that the over 450 ethnic nationalities in Nigeria, control one unit of government, at least. This in turn affects the dynamics of fiscal federalism in Nigeria.

Intergovernmental fiscal relations or fiscal federalism is a key issue in federalism discourse. Ayoade (2000:16), notes that revenue generating and spending responsibilities, intergovernmental transfer and fiscal decentralization are in fact, the real issues involved in intergovernmental fiscal relations. Accordingly, Awa agreed that the basic problem in federal finance is how to allocate revenue to Nigeria’s tripartite strata- local governments, state and federal government levels.

The Nature and Practice of Fiscal Federalism in Nigeria

Fiscal federalism refers to the allocation of tax-raising powers and expenditure responsibilities between levels of government. According to Latvack and Wallich (2001:12), the objectives of fiscal relations among units in a federation are:

- To ensure correspondence between sub-national expenditure responsibilities and their financial resources including transfer from central government, so that functions assigned to sub-national government can be effectively carried out.
- To increase that autonomy of sub-national government by incorporating incentives for them to mobilize revenues of their own.
- To ensure that the macroeconomic management policies of central government are not under minded or compromised.
- To give expenditure discretion to sub-national government in appropriate areas in order to increase the efficiency
- To incorporate intergovernmental transfer that are administratively simple transparent and based on objective, stable, none negotiated criteria.
- To minimize administrative costs, and thereby, economize on scare criteria.
- To provide "equalization" payments to offset the differences in fiscal capacity among states and among local government so as to ensure that poorer sub-national governments can offer a sufficient amount of key public services.
- To incorporate mechanisms to support public infrastructure development and its appropriate financing.
- To support the emergence of a governmental role that is consistent with market oriented reform.
- To be consistent with nationally agreed income distribution goals.

Ikpong (1993:14) is of the view that, on a specific dimension, Nigerian fiscal federalism structure involves the allocation of expenditure and tax raising powers among the federal, state and local government. As Tella (1992:4) insisted, fiscal federalism is deeply rooted in a political arrangement called federalism. As the financial relationship between and among existing tiers of government, fiscal federalism deals with the system of transfer of grants through which the federal government shares its revenue with state and local government.

A look at the local government expenditure profile in the recent times shows that local government expenditure has surpassed the potential for revenue sources owing to gap between their needs and their fiscal capacity. Their revenue rights and fiscal jurisdiction are limited, while duties and functions constitutionally allocated to them are expanding. Various fiscal laws in Nigeria clearly give more tax power to the federal government than the remaining two lower tiers of government.

Inter Government Fiscal Relations, and Service Delivery in Core Sectors.
According to Freinkman (2007:1), Nigeria's model of fiscal federalism represents a fundamental legal and institutional framework for policy making in the country. As in other federations, it defines the core rules for resources allocation, distribution of responsibilities for service delivery, and mechanisms for interaction between different tiers of government. The World Bank report (2007:2), noted that Nigeria's fiscal federalism arrangements are currently attracting increasing attention from both policy makers and analysts. This is a reflection of the fact that longer term perspectives of economic policy, reform in the country are critically dependent upon improvements in the organization of intergovernmental arrangements. Such arrangements, noted the World Bank have direct implications for achieving national growth and poverty reduction targets.

Thus, there is a major need to strengthen the incentives of government agencies at all levels of authority to improve cooperation in designing of their policies and delivery of services. The need for stronger cooperation and other reforms in federalism is driven by several factors such as the following:

- ❖ According to the Nigerian constitution (1999), main public sector responsibilities are split across various government levels. Thus, no sole government could deliver radical improvement in service delivering on its own which means, that coordination and cooperation are pre-requisites.

- ❖ Significant fiscal decentralization of the public finance system has taken place since 1999. Given the existing resource allocation rules, such decentralization has its inherent shortcomings.

Constitutional Imperative of Fiscal Federalism in Nigeria.
Section 162 (1) of 1999 constitution provides that the federation shall maintain a special account to be called:

(1) "Federation Account" into which shall be paid all revenues collected by the Government of the federation, except the proceeds from the personal income tax of the personnel of the armed forces of the federation, the Nigeria police force, the ministry or department of government charged with the responsibility for foreign affairs and the residents of federal capital territory, Abuja.

(2) The President upon the receipt of advice from the revenue mobilization and fiscal commission, shall table before the National Assembly proposal for revenue allocation from the federation Account. In determining the formula, the National Assembly shall take into account, the allocation principles, especially those of:
(a) Population
(b) Equality of state
(c) Internal revenue generation
(d) Land Mass
(e) Terrain, as well as
(f) Population density

Provided that the principle of derivation shall be constantly reflected in any approved form as not less than thirteen percent of the revenue accruing to the Federation Account directly from any natural resources.

(3) Any amount standing to the credit of the Federalism Account shall be distributed among the Federal, state, and local government council in each state on such terms and in such manner as may be prescribed by the National Assembly.

(4) Any amount standing to the credit of the states in the Federation Account shall be distributed among the state on such terms and in such manner as may be prescribed by the National Assembly.

(5) The amount standing to the credit of local government councils in the federation account shall also be allocated to the state for the benefit of their local government councils on such terms and in such manner as may be prescribed by the National Assembly.

(6) Each state shall maintain a special account to be called state joint local government account into which shall be paid all allocations to the local government councils of the state from the federation account and from the Government of the state.

(7) Each state shall pay to local government councils in its area of jurisdiction such proportion of its total revenue on such terms and in such manner as maybe prescribed by the National Assembly.

(8) The amount standing to the credit of local government's council of a state shall be distributed among the local government councils of that state on such terms and in such manner as may be prescribed by the House of Assembly of the state.

Section 163 of the said constitution stated that where under an Act of the National Assembly, tax or duty is imposed in respect of any of the matters specified in item D part II of the second schedule to this constitution, the net proceeds of such tax or duty shall be distributed among the states on the basis of derivation and accordingly:-

(a) Where such tax or duty is collected by the Government of a state or other authority of the state; the net proceeds shall be treated as part of the consolidated revenue fund of that state.

(b) Where such tax or duty is collected by the Government of the federation or other authority of the federation there shall be paid to each at such times as the National Assembly may prescribe a sum equal to the proportion of the net proceeds of such tax or duty that are derived from that state.

According to Nigeria's 1999 constitution (Part2, Fourth Schedule), the major sources of revenue such as petroleum profit tax, import duties, mining rents and royalties and companies' income tax come under the jurisdiction of federal government. Apart from personal income tax at the state level which is high yielding, state and local governments have jurisdiction over poor revenue yielding sources. Property taxation has high yielding potentials but is yet to be fully exploited by most local governments. Other sources include entertainment tax, motor vehicle and drivers' license fees and motor park fees. Onah (2006:135).

Problems and Challenges of Fiscal Federalism in Nigeria.

In the analysis and opinion of World Bank (2007:1) significant fiscal decentralization has taken place since 1999. However, given the existing resources allocation rules, such as decentralization and payment of 13 percent derivation poses the risk of emphasizing – rather than taming fiscal inequalities. The benefits of drastic improvements in macroeconomic policies and fiscal discipline at the federal level are severely constrained by lagging reforms in the states.

As noted by Lev (2007:2), compared to the recent past a much larger portion of public funds today is spent on the basis of independent, non coordinated decisions, of individual states and local governments. That is, whereas the national development policy of transformation, are articulated to link up with the vision 20:2020, and National Economic Empowerment and Development Strategy (NEEDS) as the working blue prints, most states of the federation are yet to articulate their development platform through the state correlate in State Economic Empowerment and development Strategy (SEEDS), and Local Economic Empowerment and Development Strategy (LEEDS) at the local government levels. World Bank Report (2009:6) noted that the main drivers of fiscal decentralization in Nigeria are:

(a) Stricter enforcement of constitutional requirements in particular, since the return to civilian rule, the FGN has been much more disciplined in enforcing the existing revenue sharing rules than was the case in the 90^S.

(b) Restoration of derivation principle in the 1999 constitution.

(c) The supreme court decision in 2002 that reduced the size of the first line deductions from the Federation Accounts (FA)

(d) Some adjustment in Federation Account allocation shares since 2002 that favoured sub-national governments.

Rapid expenditure decentralization has created both new opportunities and challenges for public service delivery in Nigeria. Given that the states are mainly responsible for financing basic public services such as Primary health and education, decentralization creates the potential for further improvements in the financing of these priority sectors. At the same time, due to well known capacity constraints at the sub-national level, this expansion in financing creates a substantial risk of a decline in spending efficiency. It also increases the risk of misuse of funds due to slower pace of public finance management (PFM) reforms in states.

So far, fiscal decentralization in Nigeria has not been accompanied by strengthened accountability of sub-national governments for efficient utilization of resources they have now in their disposal. This complicates progress in improving service delivery.

The cost of non coordinated policies is further aggravated by Nigeria’s rather rapid fiscal expansion and by the favourable oil prices of the world market. It is estimated that in 2005-2007, total expenditure of the consolidated governments in Nigeria (that includes spending of all governments levels and extra budgetary government accounts) in real terms will be growing at an average rate that exceeds 12% per a year UNDP (2008:1).

The Risk of Growing Fiscal Inequality

World Bank (2007:B) loudly criticized the current trend of fiscal decentralization. They observed that since 1999, the benefits of recent fiscal decentralization have been distributed rather unevenly across sub-national governments. This is because, in keeping with the constitutional requirements, about a third of all allocations from the Federation Account to states reflect derivation oil payments. The four main oil producing states (Akwa Ibom, Bayelsa, Delta and Rivers) jointly received about N265 billion (US $ 2 billion) in 2005, and more than that in the period (2006-2009) following an increase in the price of international crude oil which makes it easier to stimulate rapid development in these super rich states, at the detriment of poorer non oil producing states. Nonetheless, the expenditure management and accountability system is also porous.

Further challenges in fiscal federalism and nation building in Nigeria include the following:

- Poverty,
- Military intervention in Nigerian politics
- Lopsided fiscal distribution
- The demand for resource control
- The federal character principle
- Unemployment
- Over bloated presidential system,
- Ethno-religious conflicts
- Militancy and Arms struggle
- Geopolitical imbalance in state / local government creations
- Electoral fraud/violence.

The Prospects

The prospect of equitable fiscal federalism in Nigeria is high. There is hope that should rich states utilize their resources well, it could lead to rapid industrialization of those zones and in response, the federal government could capitalize on it, to use federal grants to equalize and help the less endowed states. Besides, if properly harnessed, could stimulate other states into looking into how to develop their own natural resources base; which would enhance both competitive and cooperative federalism.

Conclusion

The prospects and challenges of fiscal federalism in Nigeria are largely attributed to the process of the evolution of the country, military dictatorships that ignored basic tenets of federalism and ran the multi ethnic nation as a unitary enclave. The lopsided federal structure bequeathed the country by the colonialists notwithstanding, corruption, greed and other socio-economic and political variables, have entrenched bad leadership, that have failed to utilize the natural resources of the country for the benefit of all and sundry. Despite all these setbacks, there is still hope, the emergence and sustenance of democracy, rule of law, fight against crime and corruption, institutional reforms and human capital development, will help in a long way to use the decentralization of resources in achieving vision 20:2020.

Recommendations

- State and Local Governments must pursue internal revenue generation (IGR) with greater vigour so as to reverse the prevailing low internal revenue trend. To this effect potential and yet not fully exploited sources of revenue available to local governments include property rates, television and radio licences as well as entertainment tax for both state and local governments.

- There is a dire need to de-emphasize the controversial derivation principle in Nigeria's revenue allocation process. Both derivation and resource control are divisive and antithetical to national cohesion. There is no gain saying that region of the federation that suffers various forms of disadvantage or economic deprivation in the course of mineral exploitation need to be compensated. But this can be done through the equitable distribution of social infrastructure and improved employment opportunities in these areas.
- It is also suggested that the share of internal tax/revenue efforts should be raised to at least 20 percent. This will ginger up state and local governments towards internal revenue generation.
- There should also be capacity building aimed at increasing local governments managerial and fiscal abilities to enhance proper record keeping and accounting, thus leading to an improvement in revenue generation.
- Finally, as a result of uneven distribution of natural and material resources across the country, allocation of tax powers to the federal government remains imperative. This is because in spirit of give-and-take which is implicit in federalism, the resources generated from the better endowed federating units should be partially used to develop or fund the less advantaged ones. This can be most effectively done through a central account such as the federation account, into which the federally revenue can be paid.

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