Balancing Central - State – Revenue Management Powers: A Panacea to Fiscal Federalism Issues in Nigeria Federalism

BY

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ABSTRACT

In Nigeria, the issue of fiscal federalism and democracy remain grossly unsuitable because of misplaced priorities. There has been a controversial debate and conflicts on how Government revenue is to be shared amongst the component tiers of Government in the country. The inability to implement a full scaled true federalism and fiscal policy has in the past hindered national development greatly. It is on this premise that this study has deemed it necessary to critically assess the issues /challenges of fiscal federalism in Nigeria federalism between 1999 and 2014. The study utilized secondary sources in its data collection and adopted fiscal federalism theory as its theoretical framework of analysis. The study found out that there is inability of states to raise, retain and manage revenue generated within their units and this has been the bane of socio economic development. Hence the study recommends that, the vertical revenue allocation should be deepen through devolution of resources in order to abate socio-economic malaise, and the economic dependence of states on the federal government. The paper also recommends stipulation of stiff penalties to enhance fiscal federalism compliance.

KEYWORDS: State Revenue Management Powers, Fiscal Federalism, Issues and Nigeria Federalism

Introduction

In Nigeria, one of the most protracted and controversial debates is the way Government revenue is shared amongst the component tiers of Government in the country. This debate has its foundations in the history and evolution of the Nigerian Federation. Nigeria, as a federal state allocates government resources and spending to the various tiers of government as a form of decentralized government and having been incorporated in 1914 with the amalgamation of the two British protectorates of Northern and Southern Nigeria and the Crown Colony of Lagos into a single entity. The concept of fiscal federalism was formally introduced in Nigeria in 1946, with the formation of a federation of three regions leaning on the regionalism foundation laid in 1939 by Bernard Bourdillion by splitting the southern Province to create the Eastern and Western Regions, and the Northern Region which was a continuation of the Northern Province, following the adoption of the Richards Constitution. Each of the three regions (East, West and North) had its own revenue base with a relatively weak federal government (Barkan, Gboyega and Stevens, 2001; Vincent, 2002).

Before the introduction of a republican constitution in 1963, the fiscal arrangements were influenced by political and constitutional factors. Several commissions were created to renew existing fiscal arrangements and make appropriate recommendations (Ekpo and Ndebbio, 1996). These were Sir Sydney Phillipson (1947), Hick & Phillipson (1951), Chick Commission (1954), Ransman Commission (1957), Binns Commission (1964), Dina Commission (1968), Aboyade Technical Committee (1977), Okigbo Committee (1981) and Danjuma Commission (1989). New formulas were also introduced in 1990 and 2000 (Dunmoye, 2002). Each of these commissions came up with their own distinct contending criteria as to how the revenues in the country should be shared. However, it needs to be pointed out that none of the commissions' recommendations were fully implemented by the Government.

The Nigerian federal system metamorphosed thereafter from a two-tiered federal arrangement initially comprising three unequal political and administrative regions to the current three tiered federal systems of 36 states, one Federal Capital Territory and 774 Local Governments. Before the military took over government in 1966, the regions were powerful and autonomous, especially as they generated most of their revenue from independent sources. Today, the sub-national governments are totally dependent on federally collected revenues (Barkan et al, 2001; Mfor, 2009). According to Nwabuese (1983), true federalism presupposes that the national and regional governments should stand to each other in a relation of meaningful independence resting upon a balanced division of powers and resources. Conversely, most analysts including Vincent (2002) are of the opinion that Nigeria stopped operating a truly federal system of government in January 1966 in favour of unitary system of government. In July 2010, Nigeria’s 1999 constitution was amended. Unfortunately, expected changes especially the issue of "true fiscal federalism" which could have help to balance central - state – revenue management powers and consolidate democracy in Nigeria was not made.

Though currently, and in line with section 162(2) of the 1999 Constitution of the Federal Republic of Nigeria, the Revenue Mobilization Allocation and Fiscal Commission which was established in 1988, is charged with the responsibility of reviewing periodically, the revenue allocation principles and formulae and prescribes and apply the approved formulae for sharing the federation account revenues amongst the three tiers of government of Nigeria. Still, the practice of fiscal federalism in Nigeria remain centralized. Hence, Ayodele (2003), observes that, in Nigeria, the tax types have not received expected changes that match the country’s revenue generation drive since independence (1960), despite the fact that some substantial changes occurred with respect to who has right to revenues and the most significant appears to be that of mining rents and royalties. He states further that before 1959, regional governments have rights to 100% of mining rents and royalties but with production and exportation of oil in 1958. Following Raisman Commission recommendations, in 1959, this was to be distributed as follows: mineral region (50%), Federal (20%) and Distributable Pool Account (DPA) (30%). According to him, another change that is significant is that in 1994, sales tax, to which States hitherto had 100% right, was replaced by Value Added Tax (VAT) and became federal collectible. This source is the second largest government revenues, second only to mining related revenues. Today, Federal Government has right to 35% of this revenue. In virtually all cases, according to him, the changes have been in the favour of the Federal Government and at the expense of the States and the Local Governments. However, the Federal Government has always chosen the revenue mix that would ensure that it has the lion’s share of total revenues of the country both in collection and retention. From the foregoing, it is clear that Nigeria fiscal federalism is still metamorphosing and evolving.

Moreover, one way of measuring the success or failure of governments in modern societies is to assess how successful such governments are in developing conditions necessary for satisfying the basic needs of the people they govern. Therefore, the over centralization of resources and power at the centre in Nigeria's fiscal federalism caused by the incursion of the military into Nigerian politics has not helped in developing conditions necessary for satisfying the basic needs of the people or citizens of Nigeria. At the same time, it has not helped the government to optimally utilize the nation's resources in a manner that facilitate opportunities for genuine and sustainable development (Koller, 2002). This undue concentration of power and resources at the centre has created a crisis of governance which over the years have affected our democracy. The result of this are: frustration, poverty, insecurity, alienation and subjugation, competition for control of federal government, economic inefficiency, corruption and unmediated struggle for power at the centre which has occasioned the emergence of a governing elite class that have elevated primordial and self-interest over and above the common good and general of the Nigerian people. The obvious outcome has been a corrupt undemocratic and self-seeking leadership and style of governance by this elite class that is more interested with the sharing of the country's resources than with the ideas of good or effective governance - equity, fairness, justice, transparency and accountability.

Similarly, the over-concentration of resources has virtually reduced Nigeria's federal system into a conduit for the dissemination of centrally collected oil revenues to sub-national communities and constituencies. This oil-centric distributive federalism in which all governments in the federation derive an average 80 percent of their budget from a common national pool of oil revenue (the federation account), has made the states and local governments mere appendages of Federal government (Akinyele, 2005, Sampson, 2013, Okeke, 2010). The capacity for innovation and pro-activeness have been greatly undermined, in terms of rising to the challenges of developmental aspirations of the people within their areas of jurisdiction. This form of centralized fiscal system of revenue sharing further destroys the nexus between expenditure authority and revenue raising responsibility of sub-national entities, thereby, undermining the development of the multiplicity of point of political and economic power that constitutes a defining feature of democratic federalism. Given Nigeria's diversity, this form of political, economic/fiscal centralization has engendered considerable frustration, cynicism and apathy, which has been the basis for violent conflicts and clashes among the various ethnic groups and communities in the country, thereby hampering democratic consolidation and the practice of true fiscal federalism in Nigeria.

It is against this backdrop that this paper aims to examine issues in Nigerian Fiscal Federalism and suggest how balancing central and state revenue management powers can help to ameliorate the challenges posed by the said issues. To achieve this objective, the paper adopted qualitative descriptive analytical methodology. And organized in the following format: Following this introduction, is the conceptual discourse, interrogating literature, methodology [theoretical frame of analysis], main discussion/argument, other issues, conclusion and recommendations.

Conceptual Discourse

This paper, having, anchored on Fiscal federalism theory as its framework of analysis, is relevant to this study, because its explains the role of the central government and the constituent units and the relationship that ought to exist among them in a true federalism / fiscal federalism that could have help to balance the revenue management powers of the central government and that of the federating units. However, the fiscal federalism in Nigeria or the allocation of functions is based on the 1999 Constitution, which divided government functions into three categories of legislative powers. "The exclusive list, on which only the federal government can act; the concurrent list, which contains responsibilities shared by both federal and state governments; and the residual list, which is reserved for state governments. The federal government has responsibility for functions whose benefits extend nationwide, such as, defence, foreign trade, immigration, currency among others". It also has responsibility for important business undertakings through parastatals, for example, railways, electricity among others, while functions whose benefits have the possibility of spilling over state boundaries were placed on the concurrent list.

Local governments on the other hand, have responsibility for functions whose benefits accrue to a limited geographical area such as markets, primary education, and cemeteries / among others. But apart from the above, the issue of fiscal federalism in Nigeria negates the postulations of the theory. Hence the challenges of fiscal federalism which seriously have affected balancing revenue management powers of the central government and that of the states in Nigeria. Likewise, we can turn to underlying theory to re-examine the existing vertical revenue sharing. The concentration of revenues at the centre as well as the assignment of responsibilities to the different levels of government as contained in the 1999 constitution would appear to us to be excessively skewed in favour of the centre. This is understandable given that the l999 Constitution was crafted under the military. We need to revisit the assignment of responsibilities and revenues among the three tiers of government with an eye on enhancing the overall performance of the economy and ensure equitable distribution of income and resources between and among the tiers of government in Nigeria.

Methodology

The researchers used a single methodological approach to examine issues in Nigerian Fiscal Federalism and suggest how balancing central and state revenue management powers can help to ameliorate the challenges posed by the said issues. In line with prior studies, this study adopted the qualitative descriptive analytical methodology. The study was carried out on the Revenue Structure of the Federal Government, 2003-2014, Revenue Structure of State Government, 2003-2014 and Revenue Structure of Local Government in Nigeria, 2003-2014 obtained from CBN: Statistical Bulletin and Annual Report and Statement of Account (various issues). The data used for this study was obtained from the annual Reports and Accounts of Revenue Structure of the Federal Government, State Government and Local Government in Nigeria, 2003-2014 Data collection procedure was systematically done. Cross checking and verifying was also done during the comprehensive collection process minimizes omissions and errors. The researcher used descriptive statistics (bar charts) to analyse the data obtained from the annual Reports and Accounts of Revenue Structure of the Federal Government, State Government and Local Government in Nigeria, 2003-2014

Theoretical Frame of Analysis

Fiscal federalism is the financial relationships between and among existing tiers of government or the system of transfers or grants by which the federal government shares its revenues with state and local governments. This is common in federal system of government to ensure equitable distribution of income and resources between and among the tiers of government. Therefore, like federalism, the principle of fiscal federalism anchors on the principle of diversity, centralized stabilization, derivation, equivalence, centralized redistribution and equitable distribution of income and resources (fiscal equalization) between the federal government and the constituent units in order to ensure the minimum provision of essential goods and services/democratic dividend to the citizens within its jurisdiction. (Williams and Ogbole, 2014, Ozo-Eson, 2005). Thus, for the survival and balancing of central- state revenue management powers in any federation or federal system of government the said principles of fiscal federalism must be observed. Therefore, this study is anchored on Fiscal federalism theory as its framework of analysis. The proponents of fiscal federalism theory are: Kenneth Arrow (1970), Richard Musgrave (1959) and Paul Samuelson (1954, 1955). However, the basic foundations for the initial theory of fiscal federalism (known as the first generation theory of fiscal federalism) were laid by, Kenneth Arrow, Richard Musgrave and Paul Samuelson's two important works (1954, 1955) on the theory of Public Goods. Arrow (1970) discussed the Roles of Public and Private Sectors while Musgrave (1959) focused on public finance. These provided the framework for what is accepted as the proper role of the state in the economy. The theory was later to be known as "Decentralization Theorem" (OzoEson, 2005).

Within this framework, three roles were identified for the government sector namely:

i. The role of government in correcting various forms of market failure.

ii. Ensuring an equitable distribution of income; and

iii. Seeking to maintain stability in the macro economy at full employment and stable prices (OzoEson, 2005).

Thus the government was expected to step in where the market mechanism failed due to various types of public goods characteristics. Governments and their officials were seen as the custodians of public interest who would seek to maximize social welfare based on their benevolence or the need to ensure electoral success in democracies (Ozo-Eson, 2005:1 cited in Arowolo, 2011). Each tier of government is seen as seeking to maximize the social welfare of the citizens within its jurisdiction. This multi-layered quest becomes very important where public goods exist, the consumption of which is not national in character, but localized. In such circumstances, local outputs targeted at local demands by respective local jurisdictions clearly provide higher social welfare than the central provision. This principle, which Oats (1999), has formalized into the "Decentralization Theorem" constitutes the basic foundation for what may be referred to as the first generation theory of fiscal decentralization (Bird, 2009). The theory focused on situations where different levels of government provided efficient levels of output of public goods "for those goods whose special patterns of benefits were encompassed by the geographical scope of their jurisdictions" (Oates, 1999: 5). Such situations came to be known as "perfect mapping" or "fiscal equivalence" (Olson, 1996).

Nevertheless, it was also recognized that, given the multiplicity of local public goods with varying geographical patterns of consumption, there was hardly any level of government that could produce a perfect mapping for all public goods. Thus, it was recognized that there would be local public goods with inter-jurisdictional spill-over. For example, a road may confer public goods characteristics, the benefits of which are enjoyed beyond the local jurisdiction. The local authority may then under-provide for such a good. To avoid this, the theory then resorts to situation whereby the central government is required to provide matching grants to the lower level government so that it can internalize the full benefits. Based on the preceding, the role of government in maximizing social welfare through public goods provision came to be assigned to the lower tiers of government. The other two roles of income distribution and stabilization were, however, regarded as suitable for the central government.

From the foregoing, we can summarize the role assignment which flows from the basic theory of fiscal federalism. The central government is expected to ensure equitable distribution of income, maintain macroeconomic stability and provide public goods that are national in character. Decentralized levels of government on the other hand are expected to concentrate on the provision of local public goods with the central government providing targeted grants in cases where there are jurisdictional spill-over associated with local public goods. Once the assignment of roles had been carried out, the next step in the theoretical framework was to determine the appropriate taxing framework. In addressing this tax assignment problem, attention was paid to the need to avoid distortions resulting from decentralized taxation of mobile tax bases. Gordon (1983), emphasized that the extensive application of non-benefit taxes on mobile factors at decentralized levels of government could result in distortions in the location of economic activity. Following from the assignment of functions, taxes that matched more effectively the assigned functions were also assigned to the relevant tier or level of government. For example, progressive income tax is suited to the functions of income redistribution and macro-economic stabilization and is therefore assigned to the central government. On the other hand, property taxes and user fees were deemed more appropriate for the local governments. Benefit taxes are also prescribed for decentralized governments based on the conclusion that such taxes promote economic efficiency when dealing with mobile economic units, be they individuals or firms (Ozo-Eson, 2005:1).

The final element of this basic theory, that is worthy of note is the need for fiscal equalization. This is in the form of lump sum transfers from the central government to decentralized governments. The arguments for equalization were mainly two. The first which is on efficiency grounds saw equalization as a way of correcting for distorted migration patterns. The second is to provide assistance to poorer regions or jurisdictions. Equalization has been important in a number of federations. For example, Canada has an elaborate equalization scheme built into her inter-governmental fiscal arrangements (Weingast, 1995). It should be pointed out however, that recent literature emphasizes the importance of reliance on local revenues for financing local budgets. A number of authors (Weingast, 1995; McKinnon, 1997) have drawn attention to the dangers of decentralized levels of government which rely too heavily on intergovernmental transfers for financing their budgets.

Main Discussion/Argument

Balancing Central - State – Revenue Management Powers

Arrangements around the raising, sharing and spending of money are critically important for the functioning of Federal system and often evoke political tensions. In virtually all federations in which the constitution shares power between the central and regional or state governments and, for each level to be "within a sphere co-ordinate and independent" (Wheare 1963:93) there is need for balance revenue / enough resources to each tier to justify their existence. According to The Federalist, as quoted in Wheare, 'it is, therefore, as necessary that the state governments should be able to command the means of supplying their wants as that the national government should possess the like faculty in respect to the wants of the union' (Wheare 1963). Wheare, a doyen of federalism added further that "this is clearly an additional problem in public finance to those which confront all governments. And it is a very difficult problem. It is not easy to distribute functions, and when once they are distributed, it is even harder to allot resources with any confidence that future experience will show that resources and functions expand or contract together, each adjusting itself harmoniously to the other" (Wheare 1963, Elaza 1974:89-92).

Thus, since the return to democratic rule in Nigeria, revenue sharing among the component units of the federation has from its inception, been fraught with agitations, controversies and sometimes outright rejections due to the nature of politics that is involved with the determination of what is acceptable to all the tiers (Ifesinachi, 2007). According to Okolie and Ochei, (2014), the federal government has always been accused of taken the "lion's share" of the vertical allocation on itself and delegating more constitutional functions to the states. The high percentage of federal government's share of the revenue, is not only the main source of injustice but also the major cause of corruption, marginalization, instability and reckless agitation for restructuring in the country (Obi, 2009).

But, Nigeria, at independence, embraced regionalistic federalism. The country was grouped into regions. Each region operated independently without undue interference and hindrance from the top. This system provided dynamism in economic development. The reason being that they mobilised their human and material resources in revenue generation. Each region identified its area of strength and developed a marshal plan of human capacity building which resulted in a high pool of intellectual resource contributors and a highly skilled national strength. The region, under our founding fathers, experienced massive infrastructural face lift, excellent facilities and an enviable macro and micro-economic policies. Then the regions generated their revenue independently which was ploughed back in developing their (regional) economies. This system gave everybody a sense of duty and belonging. There were willingness in contributing to their regional economies. Nigeria witnessed growth in every facet. This period marked true federalism in display. Other than what is seen today which is a mockery of the old order (Chijioke et al, 2012). Therefore, Balancing Central - State – Revenue Management Powers is critical as a panacea to fiscal federalism issues in Nigeria federalism.

Corroborating the above, Chijioke, (2012), averred that among the different levels of government, fiscal arrangement must be worked out to ensure fiscal balance in the context of macro-economic stability. Nigeria is a federal state; having 36 states, 774 local government councils and the Federal Capital Territory (FCT) as its federating units. Therefore, each level of government should be empowered by the constitution to be able to raise adequate resources (internally) and manage same to meet its needs and responsibilities. Though, naturally, these federating units are unequally endowed in terms of natural resources, for instance some states are blessed with crude oil which has constituted the mainstay of the national economy while others are blessed with other resources *(Adeleke, 2011).* However, the federal government should allow each state/the federating units to identify its area of strength and develop strategies on how best to utilize/manage the revenue for the uplift of the lots of the people (Okeke, 2010; Akinyele, 2005).

Nevertheless, the economic dependence of states on the federal government should be eschewed. State should have absolute control of her wealth and resources. According to Thom-otuya (2013), they can partner with the Federal government in the exploration and exploitation of any resources within their territorial jurisdiction. States should be empowered by the constitution to control their resources and pay certain percentage of taxes to the Federal government. This is one of the real attributes of Federalism in tandem with the views of Wheare, (1963) and Nwabuese, (1983), that true federalism presupposes that the national and regional governments should stand to each other in a relation of meaningful independence resting upon a balanced division of powers and resources. For sustainable democracy in Nigeria federalism, states should be independent in the ownership of their resources. The practice in Nigeria federalism whereby the Federal government owns all the resources in any part of the country should be eschewed. The States should be given right of inheritance and even to inherit their natural endowment. This will help to address myriads of challenges confronting Nigeria fiscal federalism and democracy.

Moreover, it will help to checkmate the conspiracy of the elites to propagate corruption and appropriate enough wealth of the nation to themselves at the federal level. Thus, this will makes for productivity of the States, since they will no longer depend on national allocation of funds from the Federal government. Thereby bringing competition among themselves. Thus, if any allocation should come from the federal government, it should be based on states contribution to the federal account. To make this workable, a system should be put in place. This will be in agreement with Onwuka, (2013), where he recommended that the Federal government through the Revenue mobilization, allocation and Fiscal Commission (RMAFC) should establish a good and accepted statistical base for the purpose of revenue-sharing across the sub-national governments in order to strengthen Nigerian democracy.

The introduction of state excise taxes on alcoholic beverages and tobacco products; this, new tax system is expected to be a residence based tax and does not eliminate excise tax by the federal government. According to Onwuka et al (2013), evidence over the years has shown that yields from Personal income taxes which form a major component of tax assignment to the state government over the years have been low. In this regard, it is suggested that the powers to set ratios, in addition to the existing administrative responsibilities should be transferred to the state governments. This will enable them to adjust ratios, depending on the economic circumstances and revenue needs. The administration of property tax should be placed under the purview of the state governments while the proceeds should be given to the local councils, with a surcharge of not more than 10 per cent to cover administrative costs. Thus, besides increasing revenue, it will also reduce tax evasion and avoidance. Another area in which the councils could increase their tax revenue is through entertainment tax on birthdays and burial ceremonies, taxes on advertisement in their localities, and cost recovery charges, such as tolls for use of local roads and other user charges (Onwuka et. al., 2013).

Other Issues

Other issues raised in the Nigerian Fiscal Federalism include resource control, non-correspondence problem, fiscal dependence and revenue sharing.

i. Resource control: The controversy between the Nigeria government and nine oil producing states of Edo, Imo, Bayelsa, Akwa-Ibom, Cross River, Rivers, Delta, Ondo, Abia and Anambra states agitating for resource control in Nigeria, ranks as one of the major issues (Sanyaolu and Dunmoye, 2004). The federal government contended that the southern seaward states were inland waters within the state; the natural resource located within the continental shelf of Nigeria was in contention. All the oil states claimed that their territory extended beyond the low water mark on territorial waters and the exclusive economic zone. The natural resources derived from both onshore-offshore are national security irrespective of their territory and thereof entitled to 13 percent derivation formula set aside for oil states as provided in section 162, of 1999 Constitution (Supreme Court, 5 April, 2002). The issue of resource control has been a subject of controversy since 1999 till date, as even the unanimous judgment of the Supreme Court could not put it to rest.

ii. Non-Correspondence Problem: Ideally, each level of government should have adequate resources to enable it to discharge its responsibilities, and this is impossible due to non-correspondence between the spending responsibilities and revenue sources to different levels of government. In Nigeria, most of the revenue sources fall within the jurisdiction of central government. This can be seen in table 1 below:

Table 1: Nigeria's Federal, State and Local Tax Jurisdiction and Assignment

Tax	Legal Jurisdiction	Collection	Retention
Import duties	Federal	Federal	Federation Account
Excise duties	Federal	Federal	Federation Account
Export duties	Federal	Federal	Federation Account
Mining rent and royalty	Federal	Federal	Federation Account
Petroleum profit tax	Federal	Federal	Federation Account
Capital gain tax	Federal	State	State
Personal income tax (other than listed in 8)	Federal	State	State
Personal income tax: armed and police forces, external affair officers, non-residents, residents of FCT	Federal	Federal	Federal
Value added tax(sale tax before 1994)	Federal	Federal/state	Federal/state

Company tax	Federal	Federal	Federal
Stamp duties	Federal	State	State
Gift tax	Federal	State	State
Property tax ratings	State	State/Local Govt	State/Local Govt
Licenses and fees	Local Govt	Local Govt	Local Govt
Motor park dues	Local Govt	Local Govt	Local Govt
Motor vehicle	State	Local Govt	Local Govt
Capital transfer tax (CTT)	Federal	State	State
Pools betting and other betting taxes	State	State	State
Entertainment tax	State	State	State
Land registration and survey fees	State	State	State
Market and trading license and fees	Local Govt	Local Govt	Local Govt

Source: (Anyanwu, 1995; Jimoh, 2003; Adeleke, 2011; Federal Republic of Nigeria Constitutions, 1963, 1979 and 1999)

From the table above, the lion share of total Nigerian revenues is collected and retained by the federal government. The federal government is solely responsible for the collection of mining rights and royalties, petroleum profit tax (Nigeria's major revenue source) and share VAT collection with state government. This implies that the local and state governments put together, collect less than 7% of Nigeria's government revenues (Adeleke, 2011).

The problems of fiscal federalism remain unresolved as divergence between assigned functions and tax powers (horizontal and vertical allocation), overdependence on the Federation Account makes federal presence unfelt in Nigeria (Fadahunsi, 1998). Federalism has the notion of unified national wage structure for federal, state civil servants and educational institutions, the component unit should establish salary structure based on capabilities (Okpe, 2005). In vertical formula, central government share should be reduced to 10 percent, state government 55 percent and local government 30 percent. On horizontal formula, equality ratios 40 percent, financial efficiency 10 percent, financial responsibility 10 percent, education and health 10 percent, derivation 20 percent and population 10 percent (Ekong, 2003).

iii. State and Local Government Joint Account: There is unbridled diversion of local government funds by state governors to the extent that hardly can any local government impact positively on its people after payment of staff salaries and personnel emoluments (Anyadike, 2013). Under this arrangement, state government is the clearing house for councils' share from the federation account. Instead of state governments adding the mandatory 10 percent of internally generated revenue to local governments, they siphon resources allocated to them from the federal level. The situation worried the former chairman of Peoples' Democratic Party (PDP) Chief Audu Ogbeh, who threatened to deal with those governors with the penchant for deducting council funds and passing pittance to the localities (Ola, 2004). Despite this threat, the situation is unabated, and the worrisome is the continued denial by council chairmen of this fact, in the face of obvious evidence. This can be attributed to what most of these governors need from the chairmen, total loyalty to the governors who helped to put them in position, and this is so in that everywhere the last local council election was everything but credible. The diversion of local government funds has negatively affected grass root development in Nigeria (Anyadike, 2013).

iv. Fiscal Dependence: The oil boom makes the state and local levels dependent on the Federation Account for revenue resources. Since the inception of democracy in 1999 in Nigeria, fiscal laws allocate more powers to federal level, while sub-national government lacks financial autonomy in their areas of jurisdiction. This has distorted constitutional mechanism to address problems of fiscal management (Akpan, 1999:218, Okeke et al, 2013). This can be seen in the revenue generation / profiles of the three tiers of government for the period 2003-2014 depicted in figures 1, 2, 3 and 2000 -2013 depicted in Tables 2(a) – 2(c) respectively.

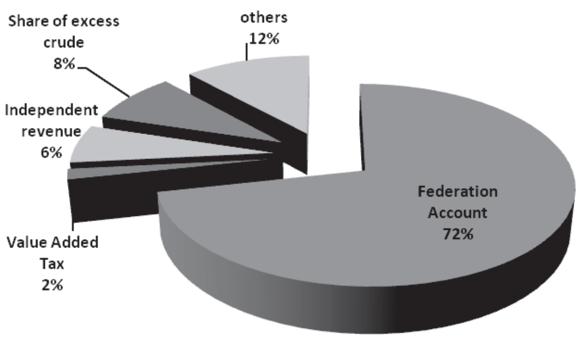

Figure 1: Revenue Structure of the Federal Government, 2003-2014
Sources: CBN: Statistical Bulletin and Annual Report and Statement of Account (various issues).

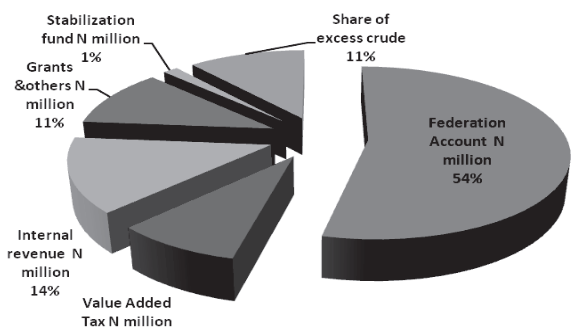

Figure 2: Revenue Structure of State Government, 2003-2014
Sources: CBN: Statistical Bulletin and Annual Report and Statement of Account (various issues).

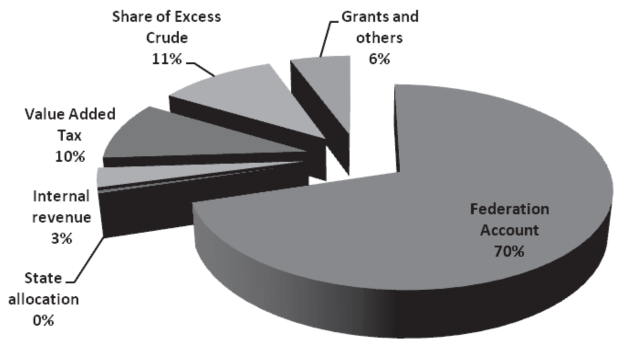

Figure 3. Revenue Structure of Local Government in Nigeria, 2003-2014
Sources: CBN: Statistical Bulletin and Annual Report and Statement of Account (various issues).

From figures 1, 2, 3 above, the bulk of the federal government revenue (over 70%) is from the federation account. In fact, federal government generates only about 6% independent revenue within the period covered. Similarly, internal generated revenue (IGR) efforts of states at 14% in the same period are generally very weak. State governments rely mainly on federal allocation, grants and proceed from excess crude account as their major sources of funding. Also, the structure of local government revenue follows the same trend exhibited by federal and states government. This weak drive for internally generated revenue by the three tiers of government is not conducive for economic growth and prosperity in Nigeria Federalism.

From another perspective, table 2(a) – 2(c) which shows the revenue generation / profiles of the three tiers of government for the period 2000-2013 adopted from Olaloku, (2012) and CBN Statistical Bulletin (2012) also show the same fiscal dependence of sub national government on the federation account.

Tables 2(a)

Federal Government Revenue Sources (2000 - 2013) in N' Billion Federal Govt. Revenue					Percentage of Revenue Source		
Year	Fed. Account	VAT	IGR	Total	Fed. Account	VAT	IGR
2000	521.6	7.8	38.6	568.0	91.8	1.5	6.7
2001	530.7	11.4	44.4	586.5	90.0	2.5	7.5
2002	859.0	12.6	68.1	939.7	91.4	1.4	7.2
2003	917.1	18.6	54.2	989.9	92.6	2.0	5.4
2004	1125.9	25.1	58.9	1209.9	93.0	2.2	4.8
2005	1234.7	26.2	82.3	1342.2	92.0	1.4	6.6
2006	1859.0	32.9	156.2	2048.1	90.7	1.7	7.6
2007	1500.8	44.0	268.0	1812.8	82.7	2.6	14.7
2008	2339.2	58.9	204.3	2602.4	89.8	2.4	7.8
2009	1923.2	68.2	248.1	2239.5	85.8	3.2	11.0
2010	2456.6	82.0	197.4	2723.0	89.7	3.1	7.2
2011	2792.5	96.0	182.5	3071.0	90.9	3.2	5.9

2012	3915.0	103.4	229.6	4248.0	92.1	2.5	5.4
2013	4434.5	115.9	328.2	4878.6	90.8	2.5	6.7

Source: Adapted from Olaloku, (2012) and CBN Statistical Bulletin (2012)

Table 2(b)

State Government Revenue Sources (2000 - 2013) in N' Billion State Govt. Revenue					Percentage of Revenue Source		
Year	**Fed. Account**	**VAT**	**IGR**	**Total**	**Fed. Account**	**VAT**	**IGR**
2000	359.1	30.6	51.2	440.9	81.4	7.0	11.6
2001	404.1	44.9	59.4	508.4	79.4	9.0	11.6
2002	388.3	52.6	89.6	530.5	73.1	10.1	16.8
2003	535.2	65.9	118.8	719.9	74.3	9.2	16.5
2004	777.2	96.2	134.2	1007.6	77.1	9.6	13.3
2005	921.0	87.4	122.7	1131.1	81.4	7.8	10.8
2006	1016.4	110.6	125.2	1252.2	81.1	9.0	9.9
2007	1169.3	144.4	305.7	1619.4	72.2	9.0	18.8
2008	1709.2	198.1	441.1	2348.4	72.7	8.6	18.7
2009	1342.8	229.3	461.2	2033.3	66.0	11.4	22.6
2010	1674.8	275.6	757.9	2708.3	61.8	10.3	27.9
2011	1886.3	318.0	509.3	2713.6	69.5	11.8	18.7
2012	2842.6	347.7	548.1	3738.4	76.0	9.4	14.6
2013	3210.3	389.5	585.9	4185.7	76.6	9.5	13.9

Source: Adapted from Olaloku, (2012) and CBN Statistical Bulletin (2012)

Table 2(c)

Local Government Revenue Sources (2000 - 2013) in N' Billion Local Govt. Revenue					Percentage of Revenue Source		
Year	**Fed. Account**	**VAT**	**IGR**	**Total**	**Fed. Account**	**VAT**	**IGR**
2000	118.6	13.9	5.8	138.3	85.7	10.1	4.2
2001	128.5	20.1	6.6	155.2	82.7	13.1	4.2
2002	128.9	18.7	10.4	158.0	81.5	12.0	6.5
2003	291.4	39.6	20.2	351.2	82.9	11.4	5.7
2004	375.7	46.0	22.4	444.1	84.5	10.5	5.0
2005	493.0	55.8	24.0	572.8	86.0	9.8	4.2
2006	550.8	75.9	23.2	649.9	84.7	11.8	3.5

2007	568.3	105.1	21.3	694.7	81.8	15.2	3.0
2008	722.3	135.9	23.1	881.3	81.9	15.5	2.6
2009	621.3	157.3	26.0	804.6	77.2	19.5	3.2
2010	732.9	189.1	26.1	948.1	77.3	20.0	2.7
2011	940.0	218.2	31.6	1189.8	79.0	18.4	2.6
2012	1082.4	238.5	26.6	1347.5	80.3	17.8	1.9
2013	1245.9	267.3	29.3	1542.5	80.7	17.5	1.8

Source: Adapted from Olaloku, (2012) and CBN Statistical Bulletin (2012)

Just as in figures 1, 2 and 3, Tables 2(a) – 2(c) shows that there is high level of dependence on federal account by the three tiers of government and also allocation of revenue has been in favour of the federal government over the years, the implication is that other tiers are handicapped in their ability to develop their areas as little resources are left at their disposal. What is so glaring from the tables above just as in figure 1, 2 and 3 is the high level of dependence on the revenue from the federation account by the three tiers of government. For instance, between the years under consideration, the ratio of federal government's revenue from the federation account was between 86 – 93%, that of state was between 70 – 81% while the local government dependence was between 77 – 85%. The implication of this is that, since over 90% federation account revenue is from oil, fluctuations in the price of oil in the global market will have a devastating effect on the Nigerian economy.

This simply exposes the weakness of Nigeria's federation in which the states and local tiers of government lack the necessary initiative to mobilize resources internally, thereby failing in their responsibilities to the people which would have helped to consolidate democracy and develop strategies on how best to up-lift the lots of the people (Okeke, 2010; Akinyele 2005).

v. Revenue Sharing: The current revenue formula allocates more funds to central government at the expense of states and local levels. The system has killed the urge for internally generated revenue (IGR). Even when the monthly allocations to councils come, it is reallocated by States Joint Allocation Committees (JACs). Agba and Bello-Imam (2004), assert mutual suspicion between the component groups on revenue allocation, the shift from resource control manifested arguments for and against derivation principle and other principles. Odoko and Nnanna (2009), wrote that fiscal federalism is anchored on who gets what, when and how of national cake. Akindele (2009), states that by virtue of constitutional provision, revenue should be disbursed to three tiers of government directly, but federal level has not justified its lion share with small expenditure assignment to component states (Nasir, 2011).

Nasir (2011), also posits that there is a problem with the existing sharing formula in Nigeria fiscal federalism. According to him, the Federal government gets 52.68% of the total revenue without corresponding responsibilities while the state and local government gets 26.72% and 20.60% respectively, which to him is neither fair nor just. The above exploration has close similarities with Ewetan (2012), who stated that in Nigeria fiscal federalism, there is dominance of federal government in the sharing of national resources from the common purse popularly known as the federation account.

In concurring with the above, Ayo (2011), empirically studied the extent of the alleged centralization of the fiscal arrangement in Nigeria. This was based on the data collected on the following elements (for period 1999-2007) during a survey conducted in 2008 on intergovernmental fiscal relations in Nigeria. He went further to say that the operation of the federation account is a major source of conflict in Nigeria's fiscal relations as it has been difficult task arriving at a generally acceptable formula for distributing the federal account. Table 3 below shows a clear fiscal imbalance between May 1999 and May 2007. The federal government enjoyed averagely 45.9% of the federation account in addition to the so called special fund account while the state also enjoyed 30.3% on the average leaving 19.3% for local governments (Ayo, 2011). The centralization of the fiscal power, from the point of view of federation account operation, is evident from the share that finally gets to each of the thirty-six (36) states and the seven hundred and seventy-four (774) local governments respectively from the Account in comparison with that of the federal government. This can be seen in the table 3 below:

Table 3: Federation account operation (May 1999-May 2007) (#million)

Year	Total Revenue	Federal	%	State	%	Local	%	Special fund	%
1999	461,579.66	187,596.25	40.6	103,936.87	22.5	86,771.65	18.8	83.274.89	18.1
2000	1,368,658.32	572,887.69	41.9	367,388.65	26.8	201,370.34	14.7	227,011.64	16.6
2001	1,523,475.90	693,901.11	45.5	429,330.26	28.2	312,548.83	20.5	87,695.71	16.6
2002	1,666,414.06	866,799.04	52.0	443,265.40	26.6	338,896.28	20.3	17,453.34	1.1
2003	1,923,310.43	976,809.14	50.8	569,833.97	29.6	376,667.32	19.6	_____	
2004	2,551,376.01	1,206,899.43	47.3	825,299.03	32.3	519,177.55	20.4	_____	
2005	3,025,576.16	1,325,446.64	43.8	1,086,294.17	35.9	613.835.35	20.3	_____	
2006	3,791,369.69	1,727,671.14	45.6	1,325,105.81	34.9	738,592.74	19.5	_____	
2007	1,731,531.97	784,909.48	45.3	614,584.16	35.5	332,038.33	19.2	______	

Source: Ayo, 2011.

In line with the above, the former minister of state for finance Dr. Yerima Ngama in FAAC Report of December, 2013, announced in January 2014, stated that, the three tiers of government in the country [Federal, State, and Local Councils] enjoyed an expanded take-home income from the Federal Account Allocation Committee [FAAC] in the month of December. The FAAC says it shared N581.498 billion between the Federal, States and Local governments. The amount for December is less than the previous month of November which was N675, 650billion. The gross revenue collected in December was N64.725 billion. The Minister then announced that the amount originally budgeted for the month was N623.768 billion, however the figure actually distributed was N473.607 billion (amount excluding refund by NNPC, VAT, and fund from SURE-P). The allocated amount of N581.498, includes N7.617 billion refunded by NNPC, N64.725 billion from Value Added Tax (VAT) and N35.549 billion from SURE-P Programme.

A breakdown of the distribution indicated that the Federal Government received N221.161billion, (52.68%), while the State received N112.176 billion (26.72%) and the Local Government received N86.483 billion (20.60%). Furthermore, a total of N48.461 billion representing 13% derivation revenue was shared among the oil producing states (Premium time, 27TH March, 2014).

In addition to the above, another very important challenge to fiscal federalism in Nigeria is the issue of over dependence on oil revenue. According to Agbaeze et al (2014) on their study in resolving Nigeria dependence on oil, empirically reviewed that Nigerian's economy was well known in manufacturing and agriculture (Obo, 1998, Fearon, 2005 and Ehwaraieme, 1999, 2001), before the discovery of crude oil in commercial quality in 1956 and oil boom in 1970s. Before then agriculture was the major source of the country's foreign exchange, the groundnut pyramid of the Northern region and palm plantation of Eastern region, cocoa farm of the western region were the major sources of foreign exchange that sustained these respective regions (Taiwo, 1999, Vincent 2001, Teriba 1999, Sala-i-martin and Subramanian 2013). Agbaeze et al (2004), went further by positing that after the discovery of oil in commercial quantity, Nigerian economy then became intricately interlink with oil sector thereby making crude oil receipts to account for about 80% of total government revenue accruable to the federation account, and at the same time 95% of the foreign exchange earnings and about 15 percent of the country's GDP (14.85 percent in the first quarter of 2014) and 4 percent total of employment – thus making Nigeria one of the most oil dependent economy in the World (Sampson, 2013, Agbaeze et al, 2014).

In their findings, they believe that the over-dependence on oil revenue have thrown Nigeria Public Finance into disarray and at the same time make intergovernmental fiscal relations in the country to be governed by oil rents hence the tension and agitations by oil producing states for greater share of resources and demands for redistribution from other regions, particularly relatively less endowed ones. They recommended that there should be a rethink in the current revenue sharing formula in Nigeria in favor of derivation. They also recommend that government should go back/roll back to the era when states/regions were accorded 50% retention of any proceeds accruing from their area. Accordingly, this will make every state/region in Nigeria to look inwards and explore other resources that abound in their areas and will help to diversify the economy of Nigeria away from oil.

Finally, the literature reviewed that fiscal federalism expenditure must be in the same level with taxation to reduce over-dependence in financing expenditures. Some challenging issues bordering on fiscal dependence, state and local government joint account, resource control, non-correspondence and revenue sharing formula etc has adversely affected Nigeria federalism and national development from pre-colonial era to post independence era in Nigeria.

Summary, Conclusion and Recommendations

Summary

The following findings are made in this study:

There is inability of states to raise, retain and manage revenue generated within their units. Though a lot has been written about inter-governmental fiscal relations and the need for improved allocation to states and local governments from the Federation Account, not much attention has been paid to the management of the available resources base through improving their internally generated revenue.

The imperfection in the 1999 constitution has hampered proper fiscal federalism in Nigeria. Fiscal laws in Nigeria tend to give more power to the federal government than the other sub-federal units combined. In fact, there is an increase dependence of the sub-federal units on the federal particularly for their finance. State and local governments are neither given any strong fiscal incentive nor encouraged in generating internal revenue. In view of this, they are weak financially and the financial base of states cannot strengthen or guarantee true fiscal federalism in Nigeria. As a result, there is conflict and agitation by the two other tiers against the federal government for self-reliance.

Conclusion

Fiscal Federalism is very crucial for the functioning of any Federal system. It is one of the key features of Balanced Federalism. Therefore, it is very important to create a balance between the Federal and State Governments in Revenue generation, sharing and spending in order to reduce the over dependence of sub-federal units on the federal government thereby improving their internally generated revenue and the provision of democratic dividends to the citizens.

Recommendations

Fiscal Federalism is crucial for the functioning of any Federal system. In fact, it is one of the key features of Balanced Federalism. It is therefore very important to create a balance between the Federal and State Governments in Revenue generation, sharing and spending.

Moreover, to further boost statutory transfers to the sub-national governments to reduce uneven development between the federal and the sub-national governments, the revenue-sharing formula should be reviewed. However, the percentage allocation to each tier of government can also be determined by proper beginning, depending largely on the expenditure needs of each tier of government on social services, internal security and defense. In order to bring democratic dividends to the grassroots, State Governments should be compelled to allocate the mandatory 10 per cent of their internal Revenue to the Local Government, the Federal Government should establish a standard format to enable it to monitor this aspect of the constitution and stiff penalty should be stipulated in the law. For instance, it could be recommended that failure to comply; the fiscal commission should deduct the outstanding amounts from individual state government's share of the Federation Account (Onwuka et al and Muhammed, 2013). All these will help reflect true federal status which will go a long way to strengthening and stabilizing democracy in our federalism and also help to solve the problem and challenges of fiscal federalism in Nigeria.

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