

The Problem with Nigerian Fiscal Federalism and how it could be overcome

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Abstract

Every country in the world has to make a decision on the type of governmental structure to adopt and some may adopt the unitary, federation, quasi-federation, or confederation system, which is usually based on political, economic and social consideration. Over the years, decentralization has become the norm in most developing countries of the world and Nigeria is no exception, with its initial practice of fiscal federalism in 1946 that has continued since independence in 1960. Nigeria's fiscal federalism is saddled with many problems and attempts to put some of the problems right have seen many Committees and Commissions set up over the years to look into ways to enriching the system. This article is purely based on qualitative research and uses secondary sources of information to genre the necessary information needed for this article. This article seeks to redress the malaise and ills of Nigeria fiscal federalism practice by asserting a new possible direction for the country. Therefore, in order to achieve this aim this paper discusses the inherent problems in the Nigeria's system of fiscal federalism and attempts to posit alternative paths. It specifically recognizes that Nigeria's fiscal federalism is find wanton in many areas such as resources control, formula for sharing, monolithic resource, tax bases, constitution, and especially corruption in the system that need to be addressed to resolve the dilemma which Nigeria's fiscal federalism currently inherent. This paper therefore feels a need to research Nigeria fiscal federalism with a view to add value to the on going debate on how to improve the fiscal federalism practice in Nigeria. The paper adopts descriptive and analytical methods relying on secondary sources of information to genre information on the lapses in Nigeria fiscal decentralization process. The author decries the centralist nature of financial resources, the constitution with its exclusive legislature, formula, tax bases, and the use of derivation rather than equalization and in particular corruption as the major problems that need to be addressed. The paper also posits the need to discontinue with the present formula measure for sharing for State Gross Domestic Product (SGDP). It is recognized that these measures would energize states to develop other sources of finance and not to wait for the hand-outs from the central government and if this was to be effective corruption must be wiped out from the system of revenue delimitation. This paper attempts to use the problems inherent in Nigeria's current system to foster a new direction for Nigeria, which hopefully would lead to a more harmonized practice than is currently the case.

Keywords: Fiscal federalism (FF) Intergovernmental relations (IGR) Poverty Alleviation, Tax base, Formula, Revenue sharing, Constitution, Exclusive legislation list, Corruption.

Introduction (Fiscal Federalism)

Nigeria is among the four African countries, which include; Ethiopia, Cameron, South Africa, that constitutionally practice fiscal federalism and fiscal federalism is synonymous with decentralization, hence Oates (1972) writing on fiscal federalism calls it decentralization theorem. Revenue sharing is a contentious issue in Nigeria especially amongst the oil producing states (Nwosu 2005). Although no system of delimitation of revenue in the world would be adjudged to be perfect, the insistence committees and commissions set up to look

into fiscal federalism in Nigeria is an indication that some-how something is fundamentally flaw or amiss with the system. But it must be said that the way the government is going about instituting committee or Commission to look into the revenue sharing method is indicative that the government is adamant that it is the formula that is wrong when in reality it is everything about fiscal federalism that is wrong and therefore the whole area of fiscal federalism operation needs to be investigated and put right.

The type of government a country adopts, be it federal, unitary, confederation, would be based on political decision. Once the political decision is made, (Okunrounmu (1996) asserts it has implication for political government, fiscal management and economic development as well as the attainment of social stability. That Nigeria is a federation is in no doubt. The current Nigeria's constitution is very explicit and emphatic on this issue. It pronounces Nigeria a federal republic (para1, 2.1 of the 1999 Nigerian constitution). In Nigeria, revenues are highly centralized. Nigerian constitution defines the manner in which resources are shared among the different levels of government. According to Alms and Boex (2002) with the exception of VAT and some minor resources, all federally collected revenues are paid into "Federation Account" (less specific first charges) and then shared among central, states, and local governments. It is reported by Alms and Boex (2002) that between 80%-90% of all state spending in Nigeria comes from the central government in transfer of funds. However, revenue sharing between tiers of government in Nigeria has been a problem (Nwosu, 2005). The problem has been one of discord, discontent and sometimes outright rejection of allocation of revenue and has even resulted in arm struggle (Salami, 2011). It is a problem that threatens the existence of Nigeria as a country.

Fiscal federalism practice in Nigeria is very much in line with the general practice of fiscal federalism but the practice is very much centralized than in most other countries such as the USA, Canada, Australia (Anderson, 2007). Perhaps the greatest problem facing Nigeria is in the area of resource control, formula for sharing, control of tax bases, and the use of derivation and in particular corruption (Ugiagbe, 2015). It also recognized that Nigeria relies on one main source of revenue and that comes from oil. Oil constitutes almost 90% of Nigerian foreign earning and 38% of its GDP (Alms and Boex, 2002, Arowolo, 2011, Salami 2011). This is the revenues every government in the federation (central, state, local governments) depend upon to finance most of their expenditures. The consequence of this is that other resources of vital utility, such as Agricultural, physical, hard resources have been left undeveloped (Salami, 2011).

The federal government controls nearly all the tax bases and definitely the most lucrative tax bases. The federal government controls Mining rights, Petroleum Profit Tax, Royalty and share VAT collection with the states government (Arowolo, 2011). These are the bases which generate a lot of revenues and between 2003 and 2008, 90.3% of total Nigeria revenue was collected by the federal government, leaving just less than 7% for the states and local government and over 70% of federal revenue is from Federation Account while Internal Generated Revenue by federal government was 6% and 14% for states and local governments (Central Bank of Nigeria Statistically Bulletin and Annual Report and Statement of Account, 2011). The VAT Account is not different. The VAT like the federation Account has a first charge to the Federal Government. The lion share of the VAT formula goes to the federal government: 40%, federal, 35% states and local, 25%. (Central Bank of Nigeria Statistically Bulletin and Annual Report and Statement of Account, 2011)

The article seeks to redress the malaise and ills of Nigeria fiscal federalism practice by asserting a new possible direction for the country. Therefore in order to achieve this aim this paper discusses the inherent problems in the Nigeria's system of fiscal federalism and attempts to posit alternative paths. It specifically recognizes that Nigeria's fiscal federalism is

find wanton in many areas such as resources control, formula for sharing, monolithic resource, tax bases, constitution, and especially corruption in the system that need to be addressed to resolve the dilemma which Nigeria's fiscal federalism currently inherent.

Revenue sharing dilemma.

Nigeria is definitely not on its own when it comes to problems arising from revenues sharing among federal government and subnational governments. The problem is not usually a developing country syndrome but one that affects most federal countries all over the world (Arowolo 2011). For example Russia is at war with Chechnya, an oil rich region of Russia republic, Scotland wants to opt for full independence, a move seen by many as politically motivated because most of Britain's concentration of oil deposits is in Scotland and South Sudan agitation with North Sudan in a never ending war conclusion. Nigeria is no exception, fiscal federalism has led to all sorts of problems for the country and all efforts taking by successive governments by instituting various committees and commissions to look into the practice with the hope of producing an acceptable sharing formula to all the governmental tiers have often ended in vain (Salami 2011).

Every country of the world that practices fiscal federalism has a formula, which the revenues so transfer, are based. Whether the formula used meets the general objective of decentralization, which is to promote an efficient allocation of resources via a responsive and accountable government sector assuring an equitable provision of services to citizen in different jurisdictions and stimulating economic growth while preserving macroeconomic stability is another matter (Alm and Boex, 2002). However the objectives provide the guidance for the sound assignment of expenditure responsibilities among different levels of government. In Nigeria, there are five components of the state distribution formula for the Federation Account. These are: Equality, Population, Land mass and Terrain, Social Development and Fiscal effort, Ekpo, (1994) Alm and Boex (2002). Each measure attracts different percentage allocation, in calculating the amount that is transferred: Equality of states 40%, population 30%, land mass 10%, social development 10% and fiscal effort 10% (Salami 2011)

Fig1. Below is a diagrammatical representation of Nigerian revenue distribution formula till date

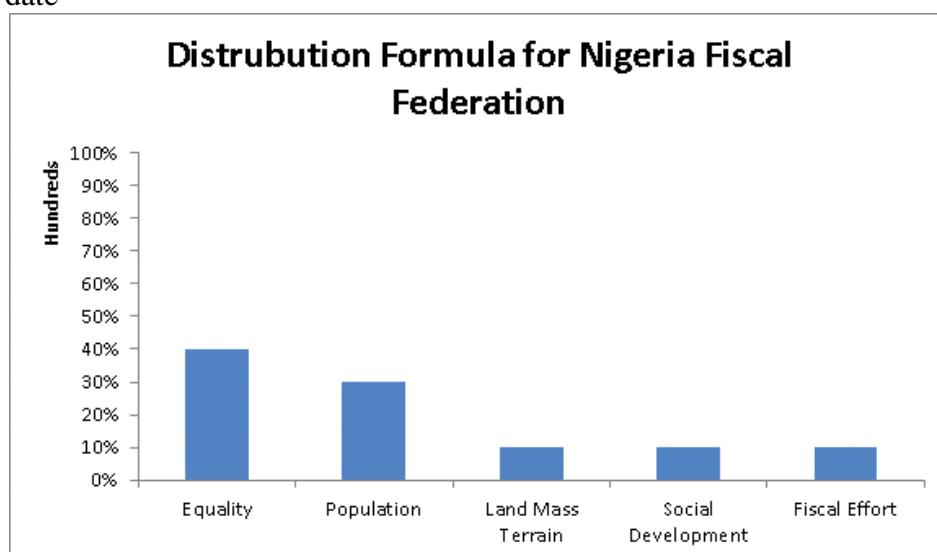
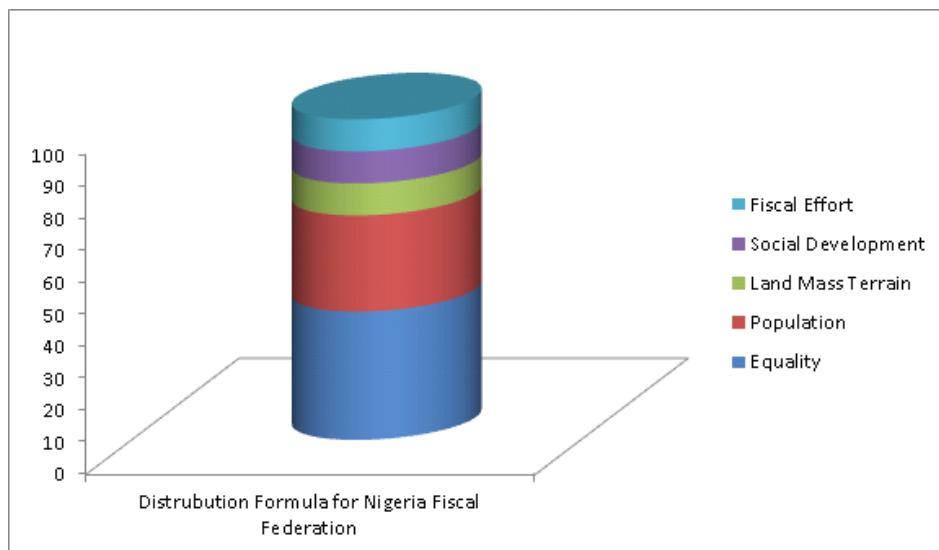


Fig2 A graph depicting the distribution formula for Nigeria Fiscal Federation



An aggregation of the distribution formula for Nigeria's fiscal Federation

There is no mention of equalization in the formula, but the federal government uses it to genre fiscal balance among the states in the federation. Derivation is a constitutional matter and it is only paid to the nine oil producing states (Abia, Akwua Ibom, Bayelsa, Cross rivers, Delta, Edo, Ondo, Imo, Rivers, of the federation at 13% off shore oil (Salami, 2011). This has raised a lot of agitation and discord for the country as other resources do not attract derivation. According to Salami (2011) there is still no acceptable formula by all the states in the federation and during the past years various commissions and committees have been set up to look into the best way to achieve fair and equitable formula for Nigeria that would be universally acceptable by all the stake holders in the country: Phillipson Commission 1946-1953, Hick-Phillipson Commission, 1950. 54, Louis Chicks Commission 1954-1958, Raisom –Tess Commission, 1958-1960. After independence, there were, Binns 1964, Interim Revenue Allocation Commission (Diana Commission 1967), The 1977 Technical Committee Allocation (Adebayo Commission), The 1979 Okigbo Commission (Presidential Commission on Revenue Allocation),Revenue Act 1981, The Danjuma Commission 1982-1998 (The National Revenue Allocation and Financial Commission) (Ekpo, 1994).

According to Arowolo (2008) oil is the economic mainstay of Nigeria and is concentrated mainly in some specific places and not in all parts of the federation, but it is also the fact that all states enthuses Salami (2011) is endowed with either mineral, physical, hard, agricultural and human resources of different nature, but oil has become a monolithic product for Nigeria for a long time and oil is the engine house of Nigeria's fiscal federalism without which Nigeria can not exist. Fiscal federalism has resulted in discord and unrest among the peoples of Nigeria. The question then is which path can Nigeria take for a more acceptable fiscal federalism?

More Resource Decentralization

The answer to the question above is difficult to discern, not because an alternative form of fiscal arrangement is not possible but because any solution to the present fiscal arrangements would arouse its own problems. However, alternative measure would be better than what is currently being practiced provided care is taken to deal with the current inherent problems. At the moment, Nigeria relies on one commodity for its livelihood and that is oil. Oil constitutes 80-85% of Nigeria's public revenue (Alms and Boex, 2002, Salami 2011, Ogwumike, 2012, AFDB, UNECA, and OECD, 2010). According to a recent survey carried perceptively among some Nigerian MPs by Ugiagbe (2015) the oil producing states are not happy with what oil spillage has done to their environment. They also see the revenue they receive in revenue

sharing from the Federation Account as delusory amount and insult. They argue that their environments have been so ravaged by oil spillage and degradation through exploration and exploitation that all possible economic activities in their areas have been perpetually destroyed thereby relegating the life of their people to penury and poverty. They said the increase in derivation is not enough and is automatically swallowed by the environmental problem they had to deal with and consequently they cannot compete in economic developments with their state counterparts (Salami, 2011). Their arguments are supported by statistics on poverty that lists the oil producing parts of Nigeria as the most deprived and depraved with severe poverty in Nigeria (Easterly, 2006).

According to Arowolo (2008) there is no state in Nigeria without resources of one kind or the other which could be hard, mineral, physical, agricultural, and human resources. Africans are by culture and tradition possessive of their natural gifted materials. Therefore any resources in the Nigeria's states' domain would be seen by the states as their birthrights that they must have control over. It is a known genre in Nigeria that the Africans are very much happy and willing to share their bounties with their neighbors but they would resist any imposition and direction of that gesture.

Therefore it would be a better proposition if the states in Nigeria are requested to pay royalties, rent, tax, vat and other appropriate levies to the central government while state control of the resources in their domain (off-shore). The payments should be worked out in a way that all resources will have different rates of payments because some resources obviously are more lucrative than others. The states should be left to negotiate any prospects, exploration and exploitation of resource(s) in their domain with firms of their choice and the maintenance of their environments (inland) would also be states'.

It is true that some states are richer than others which are expected in a country the size of Nigeria, but the federal government could then use subsidiary principle and equalization to help the poorer states to bring equity and fairness for even developments to all the country's jurisdictions. Okonjo-Iwaela and Osafo-Kwaako (2007) Khomeni (2008) Anderson (2007) recognized the importance of using equalization for equity and fairness to bring even development. For example Canada in particular makes extensive use of equalization (Anderson, 2007). If states are allowed to have control over the resources in their domain and pay royalties, taxes, VAT, rents and other dues to the central government (federal) on progressive basis the agitations from the mineral producing areas about their environment being ravaged by oil spillage would be put to rest. The responsibility to look after the environment would be shifted to the states as the state would now control their domains' resources and also the envies from the non-oil producing states which derivation payments arouse would vanish because derivation principle would sine die. By this arrangement the federal government will still have the control of off-shore resources. The revenues in taxes, rents, corporation tax, income tax, royalty, VAT and levies paid by states to the federal government could be added to the federally derived revenues from off-shore resources and after first charge payments of its debts to be paid into the Federation Account for distribution between the tiers of government.

Exploitation of other Resources

Many people according to Arowolo (2011) in Nigeria now regard the discovery of oil (honey pot) in Nigeria as a "curse" rather than a blessing because the discovery of oil in large quantity in Nigeria in 1956 has relegated other viable economic activities such as Agriculture, mining and human capital development to virtually none-existence and meaningless economic sector and therefore not worthy of development. This not an assertion but a fact as oil constitutes about 90% of the country's foreign earnings (Alms and Boex 2002, Salami 2011). The discovery of oil in large quantity has resulted in a situation that Nigeria relies on a single type of tax, which is from oil, unlike Kenya, South Africa, and Mauritania and oil

since independence has been the country's mainstay and the sales from oil constitutes 80-90% of public revenue (Alms and Boex, 2002, Salami 2011, Ogwumike, 2012, AFDB, UNECA, and OECD, 2010). According to Salami, (2011) oil revenue averages 27% of GDP while tax revenues average 6.4%. Before 1965 the bulk of Nigeria's GDP and GNP came from agriculture. There was cocoa in the West, ground-nut, hides and skin in the North, rubber in the Mid-West and Palm Oil in the East (Ojo 1980).

These were the four regions that made up the federation before the civil war Ojo (1980). There were other agricultural products throughout the country including non-agricultural products of viable economic pride such as coal, bauxite, iron ore, steel, and many other resources. After oil was discovered in large quantity these products were relegated to non-existence, non-economically viable and therefore not worthy of production (Salami 2011). Nigeria has a fertile land with good amount of rainfall throughout the year that makes agriculture a viable proposition. Once states diversify into different agricultural products of varying viability they would no longer wait and depend solely on the monthly revenues or hand-outs which they receive from the Federation Account through the federal government in 'feudal relationship', and they would be forced to intensify their agricultural bases which are somehow almost obliterated from the face of the earth and other forms of resources development will definitely come to the fore in most states. Through widening of their tax bases and revenue bases in addition to what they will get in transfers and equalization or grants from the central government would in no small measure boost their revenue accounts than what the states and local governments currently receive.

Formula Redress

The current sharing criteria, which include: equality of state, population, social development, and internal generated revenue, land mass/terrain (Arowolo 2011, Salami 2011, Alms and Boex 2008) must be discontinued and the federal government should adopt the use of Gross State Domestic Product (GSDP) as a de-limitation for sharing policy and also for applying equalization principle for states. This is designed to achieve three functions: 1. The current complicated measures adopted by the federal government in revenue sharing would be put to rest, for example, population growth is pegged at 2.83% throughout the federation (Federal Statistical Office of the Federation 2007). This is likely to result in problem of social, economic, religion, ethical and demography problem and failure to introduce differences in growth will result in introducing bias in allocation of public resources. 2. The SGDP is similar to the Gross National Product (GDP) of a nation, which will mirror a state as to its standard of living. 3. It would result in equity and fairness in giving revenues to states because SDGP would mirror a state in its true economic and social condition.

However, the lack of statistics in this area may hamper any meaningful measure therefore the government could rely on average income of household, which is available at the Federal Statistical Office. Many authorities of fiscal federalism, for example Anderson (2007) Alm and Boex (2002) are in favor of using State's Gross Domestic Product instead of adopting a complicated formula. In a "true federalism", where the system is truly decentralized the federal government (central) receives less than the sub-governments (Arowolo, 2011). But the sharing formula at the moment allocates the lion share of resources to the federal government. The sharing formula in 1958 recommended by Raisman Commission was 40: 60 in favor of region but, the practice today in Nigeria is that the federal government is allocated the highest share of the federally collected revenues although the federal government's share of federal collected revenues has been in decline in favor of the lower governments. For examples in 1992 the vertical allocation was changed to 48.5%, 24% and 20% for federal, states, and local governments respectively. Special funds accounted for 7%. The current

vertical allocation (without the special funds) with effect from 2002 is 52.68%, 26.72% and 20.60% for federal, state, and local government respectively (Salami, 2011).

This is unfair, as the states must be favored with a higher revenue allocation than the federal government. The states' stake in the expenditure responsibility should be increased while the revenue which they receive should equally match their responsibilities. There is evidence that some states are already performing the work meant for the central government because it has been nonchalantly ignored by the central government, such as road construction (Lagos state government 2014). At the moment the expenditure responsibilities and revenue assignments are skewed in favor of the federal government. There is a need for a critical review of the present system and any future allocation of revenue between tiers of government must be carefully worked out to reflect the expenditure responsibility of each tier of government. Therefore the present exclusive legislative list and concurrent legislative list and schedule 4 of the 1999 constitution that spelled out the duties and revenue obligations of the three tiers of government in the country must be reviewed to ensure that states are better laden with both expenditure responsibilities and revenue assignments. This is the evidence in most federal countries of the world (Anderson 2007).

According to Salami (2011) the federal government spending stands less than 53% and is more than the states expenditure and in a true federation, the states expenditure ought to be more than that of the federal government. Anderson (2007) observes that at less than 53% of total government spending, Nigeria is more centralized than Belgium, Canada, Germany and Switzerland, where the government accounts for between 30% and 40% of direct government spending. The lion share of the VAT formula also goes to the federal government. Currently the federal government share is 40%, state governments (35%) and local governments (25%) (Central Bank of Nigeria Statistical Bulletin and Annual Report and Statement of Account, 2011). The current formula also attracts 13% derivation measure for the oil producing states which allows four states out of the thirty six states in the federation to have a share of 33% revenue from the federation Account in 1988 and is continuing till date (CBN Annual Report and Statement of Account 2008) Salami (2011) (Salami, 2008).

Fig3 Below is a diagrammatical representation of Nigerian revenue distribution formula till date

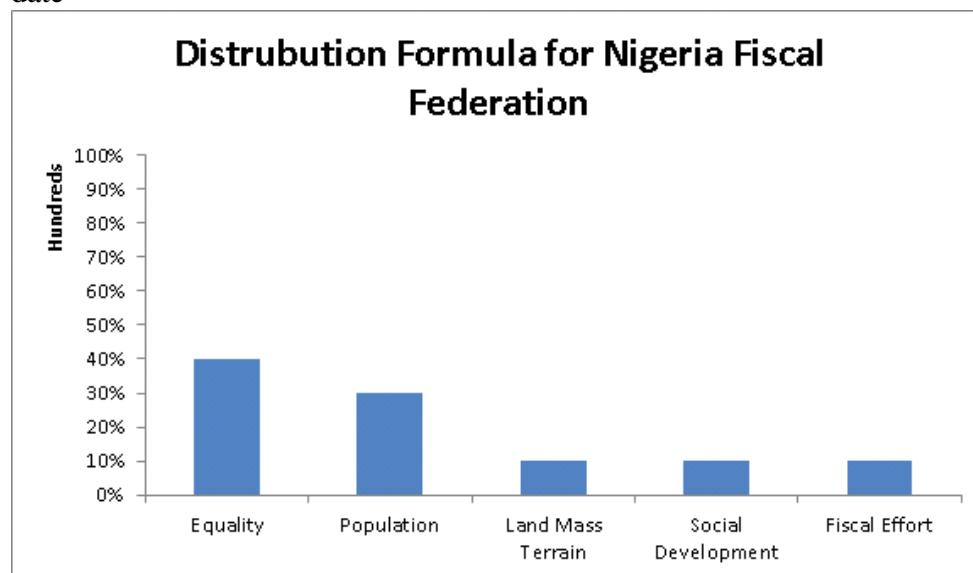
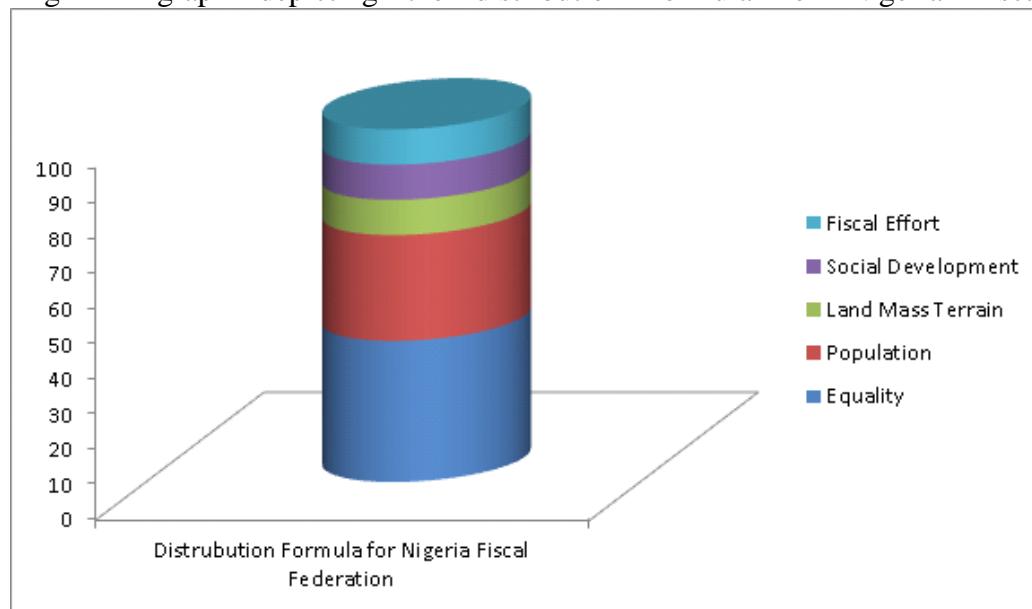


Fig4 A graph depicting the distribution formula for Nigeria Fiscal Federation



An aggregation of the distribution formula for Nigeria's fiscal Federation

There is no mention of equalization in the formula, but the federal government uses it to affect fiscal imbalance within the federation. The oil producing states resent this percentage allocation of derivation as delusory and argued that before now derivation principle was 50% but why now! Although the oil producing areas are dissatisfied with what they receive in derivation the non-oil producing states are undoubtedly not happy to see that in a federation, where every state was supposed to live in harmony by sharing the national revenue ('cake') in a most equitable manner in order to enhance equal and meaningful development to all states only four states seem to be living in opulence while the others are in dire hard situation of poverty and penury.

The use of derivation measure for the purpose of ensuring equal development seems unfair, especially to the non-oil producing states in Nigeria. Anderson (2007) supports this state of affair when he argues that Nigeria is possibly the only country in the world that uses derivation. For examples Russia, India, Canada, USA, Australia, all oil producing countries use equalization, such as grant, lump sum and special grants to bring harmony to sub national governments. This is the area where Nigeria is faced with a survival challenge because this is where most of the controversies are coming from.

The use of derivation principle is unhealthy for the country as the non recipient states are very unhappy and envious of the nine oil producing states that receive it and the states that receive decry it as delusory and not enough to meet the obligations which exploitation and spillage of oil force on them (Ugiagbe 2015). This acrimonious contention by states in the federation could be put to rest if derivation is discarded and if state were given more autonomy in their domain resources control (off-shore) and meant to pay progressive taxation base on the type of resources in their domain. Consequently, ecological maintenance would be shifted to the states and would eliminate any finger pointing by the states of environmental degradation resulting from oil or any other natural resources.

The use of Gross State Domestic Product like the Gross Domestic Product would mirror a state social-economic affair, is designed to get rid of the conspicuousness which the present formula inherent especially derivation measure. Consequently any state in bad shape socially and economically could be assisted by the federal government by applying equalization measure either by giving a lump sum, grants, special grant, or any other forms of assistance to a deserved needy state.

Constitution

The Nigerian constitution of 1999 is the country's vehicular instrument that lays down the norms and standard of behavior in Nigeria. It particularly specifies how revenue assignments and expenditure responsibilities of tiers of government should be executed in the federation (Salami 2011). Therefore any act undertaking by the tiers of government that is conterminous to the constitution is ultra vires. Consequently no government can act in isolation of the constitution. As already posited above the Nigerian fiscal system and system of financial federalism are defined and enshrined in the Constitution of 1999 (Constitution of federal Republic of Nigeria 1999 section 149 paras 1-7 and also sections 150-155.) The Constitution prescribes three tiers of governments, state governments, and country-like local governments. Thirty-six states are defined in the constitution (1999 Nigerian Constitution), plus the Federal Capital Territory, Abuja and there are at present 774 local government councils (Alm and Boex 2002).

The constitution also spells out what responsibilities the federal government is charge to execute and the state governments and local governments are supposed to execute. The federal responsible duties are spelled out in what is termed the exclusive legislative lists while that of the state government is called the concurrent legislative lists and the local governments is spelled out on schedule 4 (Nigerian Constitution, 1999). It is also spells out in the constitution that where state supposed duties transcend that of the federal government function, in case of any legal action brought over the matter the federal power should subsumed that of the states. The 1979, 1989, and 1999 constitutions identified functions of each tier of government. The functions to be performed thus:

- Exclusive list; these functions are to be performed exclusively by the central government (federal government). The functions include; external affairs, police, (issue of legal tender (issuance and printing of money) defense, etc.
- Concurrent list: these are to be performed by state/regional governments. These include census, higher education, industrial development, prisons, National Parks and Antiquities.
- The functions of local government are spelled out in the 1979, 1989, an1999 constitutions schedule 4. The main functions are provision public goods, cemetery, refuse disposal, public convenience, naming of roads, streets and housing numbering, licensing, regulation and control of sales of liquor, collection of rate, radio and television etc. (Salami, 2011).

The main functions are provision public goods, cemetery, refuse disposal, public convenience, naming of roads, streets and housing numbering, licensing, regulation and control of sales of liquor, collection of rate, radio and television etc. (Salami, 2011). According to Salami (2011) local government are subject to varying degrees of oversight and control, even though their functions are well specified in the fourth schedule of the 1999 federal constitution. The local government enthuses Salami (2011) can only exercise their function on the enabling legislation of the state government and this makes the execution of local governments function a bit difficult and problematic. It is worth mentioning here that most of the things in the concurrent list (state function) are also applicable to federal government. According to Oates (1999, p.1120) "fiscal federalism is a general normative frame work for assignment functions to the different levels of government and appropriate fiscal instruments for carrying out these functions".

Accountability makes decentralization work smoothly, without which there would be controversy and instability in the decentralized system. This entails that expenditure and functional obligation must be clear at different levels of government (Martinez-Vazquez 1998). In Nigeria, the constitution of 1999, the federal government of Nigeria has the sole responsibility to carry out the functions under Exclusive Legislative List, and both state and

federal government has right under concurrent Legislative List and where there is contradiction or conflict, the federal the state's obligation is subsumed by the federal government or the interest of the federal government override the state's (Salami 2011)

According to Martinez- Vazquez (1999) the objective of fiscal decentralization includes the efficient allocation of resources, equitable provision of public services to the citizens in different jurisdictions, macroeconomic stability and economic growth. Therefore, Tanzi (1996) enthuses that efficiency could only be fulfilled in the provision of public goods and services by subsidiary principle and it can also be enhanced by benefit payments where the consumption of benefits and costs of provisions are linked. According to Martinez- Vazquez (1999) there is no universal and optimal expenditure assignment. As a result the best assignments expenditure is the one that has in it the principle of subsidiary. Unfortunately, in Nigeria the federal government under "Exclusive Legislative List" is too laden with so many revenue assignments with little for the state and virtually nothing left for the local government as specified by schedule 4 of the 1999 Nigerian Constitution (Salami 2011). In Nigeria, the lion shares of revenue is collected and retained by the federal government. Take for example from 1980 to 2008, the federal government collected 93.9% of total Nigerian government revenues (Salami 2011), This is not surprising because the federal government controlled and sole responsible for the collection of mining rights and royalties, petroleum profit tax (Nigeria major revenue tax) and share VAT collection with state government (Arowolo 2011). What this means is that both the state and local governments are left with 6.1% in collection of the federation revenues.

The centralist character of fiscal arrangements in Nigeria makes many Nigerians to refer to Nigeria's system of government as a unitary system in disguise (Salami 2011). Most Nigerians have argued that if the country is to remain a federation of a nation its fiscal relations system must reflect a true federal system (Salami 2012, Arowolo 2011). Consequently the lower governments have continuously called for more decentralized fiscal arrangements but the federal government has over the years failed to heed their call. At the moment tax bases for states and local governments are virtually skewed in favor of the federal government, and virtually not existing for the states, therefore the overall fiscal powers and capacities of the states and local governments are very weak indeed (Arowolo 2008). A more decentralizing fiscal arrangement in Nigeria would energize states to source more for funds than they are presently doing. It is true that some states fiscal capacities are not as strong as some other states. But if states are no longer waiting for revenue handouts which they receive monthly, they would be compelled to source for funds more than is currently possible. In a proper decentralization according to Salami (2011) the sub governments would have a complete autonomy over their tax bases and expenditure assignments. This would allow them to source for revenue with overall effect on their fiscal efforts and fiscal capacities unhindered without having to be on the lookout for revenue from the central government because the states will have more revenue at their disposal for developmental purpose.

It is important to know 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 the attention to the dangers of decentralized governments relying too much on intergovernmental transfers for financing their budgets. In this regard the Nigeria sub-governments are found wanton because the lion share of total revenues is collected by the federal government as this is not unexpected because the Nigeria's federal government control and collects the most lucrative taxes such as royalty and petroleum profit tax, mining rights (Nigeria major source of revenue) and share VAT collection with the state governments. For instance, as indicated above between 1980 and 2008, about 90.9% of total

Nigerian government revenues were collected by the federal government leaving less than 7% to both state and local governments and this is the trend until date (Central Bank of Nigeria: Statistical Bulletin and Annual Report and Statement of Account, 2011)

The profile of the three tiers of government for the period 2003-2008, shows that over 70% of the federal revenue is from the Federation Account. In fact, federal government generates about 6% independent revenue between 2003 and 2008. Similarly, internal generated revenue (IGR) for states is 14% for the same periods are generally weak, while the same structure of weak internal revenue generation applies to local government (Central Bank of Nigeria: Statistical Bulletin and Annual Report and Statement of Account, 2011). Also the VAT receipts collected are paid into special funds account called VAT Pool Account. This VAT Pool Account like the Federation Account has a first charge to the federal government. The lion share of the VAT formula also goes to the federal government. Currently the federal government share is 40%, state governments (35%) and local governments (25%) (Central Bank of Nigeria Statistical Bulletin and Annual Report and Statement of Account (2011)

The bulk of the federal government revenue is from the Federation Account; about 72% of its revenue is derived from oil revenue. In fact the federal government from 2003 to 2008 own revenue generated was 6% and similarly internal generated revenue (IGR) efforts of the states between the same period was 14%. (Central Bank of Nigeria: Statistical Bulletin and Annual Report and Statement of Account, 2011) This is an indication of weak collection efforts which is not good for growth and development as the country only relied on one source of tax revenues. The structure of local government in raising taxes follows the same pattern exhibited by both federal and states government. The weak collection of taxes exhibited by the three tiers of government is not conducive to economic growth and prosperity.

The weak position to internally generate revenue by sub-governments is making sub jurisdictional governments “beggars in disguise of a feudal nature” for- ever waiting for the handouts which the central government would throw at them, without which their existence is not guaranteed. According to Salami (2011) some states’ fiscal capacity is not as good as the others, but development is not meant to be of equal basis as all fingers are not the same. What is important is that all states in the federation should be able to stand on their own and the central government (federal) should assure this by using equalization principle to ups state that are in dire need for help; After all Canada, Russia, United States of America, Australia, India all federal countries employ equalization to bring even development to various states. (Anderson 2007).

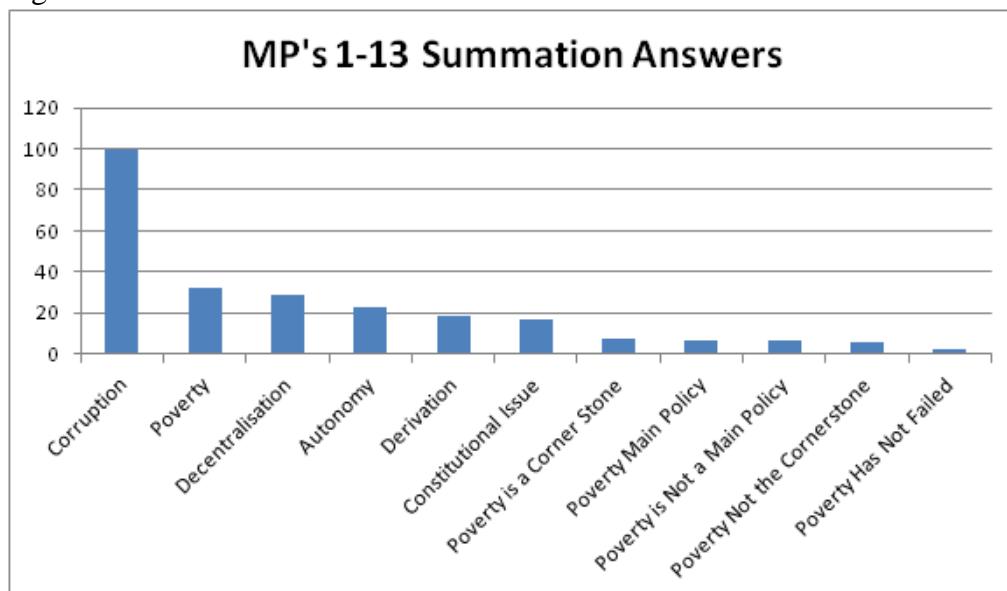
Tanzi (1996) asserts that in order that subnational governments are able to function properly and are able to provide the public goods and services that its local jurisdictions require of them, they must have sufficient and adequate revenues, their own revenue sources to perform and carry out the tasks expected of them. This raises the issue of the ‘tax assignment problem’. The question then is which and what revenue sources are to be assigned to local governments and in what proportion and how can these assignments be achieved. This is often a difficult one for any country hence Martinez- Vazquez (1999) enthuses that there is no perfect assignment. Accountability demands that the ability to raise expenditure revenue sources should be matched with expenditure needs as closely as possible. In Nigeria, the reverse is the case. Expenditures are assigned according to the constitution and there is not enough tax base or revenue derivation to execute it. Revenue derivation is heavily skewed in favor of the federal government and this needs to be redressed immediately (Arowolo 2011). There is the need to truncate the federal government expenditure responsibilities and revenue assignments in favor of states and local governments.

Therefore, the constitution should be amended to reduce some of the federal government expenditure and assignment responsibility in the exclusive legislative list thereby increasing the revenue assignments and expenditure responsibility of the state and local governments in the concurrent List and Schedule 4 respectively. This is necessary because in any transfer of funds from the central government to other sub-national governments, it is imperative that fiscal balance is achieved, that is, the country must ensure that the revenues and expenditure of each level of government are approximately equal (Oates 1972). Consequently no jurisdictional governments will be left out in providing adequate basic level of public goods and services for its people; hence equity, fairness and equality in income distribution would bring about growth and development.

Corruption

According to Ugiagbe (2015) corrupt practices in fiscal federalism in Nigeria is the bane to poverty alleviation in Nigeria. According to Ugiagbe (2015) the use of equalization and derivation are the most telling areas where corrupt practices are most prevalent in Nigeria's system of intergovernmental relations. A survey carried out amongst some Nigerian MPs of the National House of Assembly confirms among other things that corruption is the most telling problem why fiscal federalism has not alleviated poverty in Nigerian society (Ugiagbe 2015). The reports went further to say that no matter the redress given to the practice of fiscal federalism in Nigeria if corruption is not curtailed or eradicated in the system fiscal federalism would continue to fail in its quest to alleviate poverty in the country. Below is the result of the interview with some national House of Assembly.

Fig5



Taken from unpublished PhD Thesis Ugiagbe (2015) Leeds Beckett University

From the adopted graph corruption is well ahead any other characteristics that might be responsible for the failure of fiscal federalism in Nigerian society. The spate of corruption practices in the system can only be helped if a system of checks and balances are applied to the system, for example by having a constituted Ombudsman to act as a watch dog and to keep tab on how money in the Federation Account is disbursed to tiers of government and most especially sub governments should be compelled to submit a mini budget on monthly basis on what they would spend the revenue received and the budget must also be subjected to scrutiny and approval by the Ombudsman who must also make sure that the tiers of government are held accountable to their expenditure's budget commitments.

At the moment it seems revenue is disbursed and shared among the tiers of government on a free for all without any accountability. Checks and balances would foster national sense of obligatory responsibility in providing the obligated needed amenities for the local jurisdictional populace.

Summary

There would always be revenues raised at federal and sub tiers levels that would need to be paid into the Federation Account for sharing amongst the central government and the sub governmental levels. However, there would always be some contentious issues associated with revenue sharing no matter the path followed in revenue sharing between the central and other tiers of government but this is hoped to reduce the bone of contention in fiscal federalism system to the barest minimum. Corruption is not only confined to the governmental level but the society as a whole. Take for example the way statistics are presented makes meaningful policies of effective nature impossible in the country. Up till date Nigeria has no accurate census of population, some states in the country deliberately inflated their figures with the hope of arousing sympathy from the central government (salami, 2011). This is not only confined to population but all indicators of human development that would attract more revenues in fiscal transfer.

This simplistic overview confuses policy makers to direct allocations to areas of less needy at the expense of needier areas. Also in Nigeria the federal government performs duties of national scope and importance and is also guided by the constitution of 1999. The duties of the federal government are placed under exclusive list and the state is listed under concurrent list and local government in schedule 4, of the same constitution (Nigerian constitution, 1999). The Constitution would have to be amended to take note of the changes especially in resource control, formula, tax bases and especially in the area of revenue assignments and expenditure responsibilities. The states and local government would have to perform more duties than they are currently mandated to do with much revenue assignments control than they currently enjoyed and the federal government expenditure responsibilities would have to be reduced drastically and left with duties of national scope of importance such as, defense, major roads constructions, payments of federal staff and of course the usual governmental functions: macroeconomic stability, redistribution of income, leaving provision of public goods and services to the local government (Tiebout, 1956. Oates 1977).

According to Salami (2011) some states are very poor in Nigeria because their fiscal efforts and fiscal capacities are weak because their tax bases are virtually non- existence and they are not also so blessed with mineral, hard resources, human and other resources that could meaningfully sustain them as a state to be able to perform its statutory duties to its people. Fiscal efforts is define as the "degree to which a state utilizes the revenue bases available to it, and it is generally measured as the state's collection expressed relative to some measure of fiscal capacity (Alm and Boex 2002, p.27) and same define fiscal capacity "as government's

ability to raise revenue" (p.9). Therefore the current sharing criteria which include: equality of state, population, social development, and internal generated revenue, land mass/terrain (Arowolo 2011, Salami 2011, Alms and Boex 2008) should be discarded and the federal government should adopt the use of Gross State Domestic Product (GSDP) as a de-limitation for sharing policy and also to discontinue the application of derivation in favor of equalization and must allow fully the principle of subsidiarity to prevail. However in implementing the Gross State Domestic Product (GSDP) the lack of statistics in this area may hamper any meaningful measure therefore the government could rely on average income of household which is not too difficult to obtain.

There is of course the danger that some states may become too strong for the central and such states if not properly controlled could result in what happened in the 1960s in Nigeria when regional politics was the order of the day, and the regions were stronger than the central government. For example Sadauna of Sokoto preferred to be the leader of the monolithic Northern Nigeria than to take a seat at the central government, instead asked his deputy to take on the mantle of Prime Minister of Nigeria (Ojo, 1980) . This could also lead to secession as it happened in 1967 that led to Nigeria's civil war that lasted for almost three years. But if equalization is applied judiciously without favor and also if defense continues to remain the preserve of the exclusive list of the federal government, the *déjà vu* of the 1960s would be avoided.

Conclusion

There is the need to refrain from the centralist nature of the federal government especially in the area of tax and expenditure assignments and revenue sharing and allow each state to develop at their own pace. This does not mean a complete autonomy for the state and local governments but states and local government should be allowed to widen their tax bases and have control over them. Every state cannot be the same in scope and development but the spirit of federalism is that every state within the federation must be able to stand on their own feet (Okonjo -Iweala 2007) hence the use of equalization and subsidiary principle. The ability to source for revenues will release them from master-servant feudal system that makes the states to hope and wait for monthly handouts that makes mockery of the whole essence of fiscal federalism practice and thereby retarding development and progress with dire consequences for poverty alleviation in the country.

As long as Nigeria remains a federation there would always be nationally collected revenues that need to be shared between the sub regional governmental levels. The important thing is to analyze and recognized what is wrong with the system and weigh it against what the nation requires making the most affected states and population feelings a central point in policy decisions and allocation processes for the interest of national unity.

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