PROBLEMS/CHALLENGES OF FISCAL FEDERALISM IN NIGERIA

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Abstract: *The Nigerian state has faced the challenge of coming up with a revenue sharing formula that is acceptable to all Nigerians. This has generated crisis over revenue allocation and sharing since independence. Between 1946 and 1980, revenue sharing formula in the country was reviewed eight times. These reviews indeed recommended that revenue sharing should be based on principles of derivation, population, even development need and national interest. Based on these principles, the Federal government percentage has always been higher than those of all other federating units. This has generated crisis leading to clamour for resource control by some states of the federation. In order to solve this problem, there is need to introduce a revenue sharing formula that will be acceptable in meeting the development aspirations of all federating units in the country. This can be achieved through depoliticising revenue sharing process, addressing issues of injustice and inequality in resource allocation, decongesting enormous powers at the centre and instituting accountability and selfless governance at all the levels of government in the country.*

Keywords: *Problem, Challenges, Fiscal, Federalism, Nigeria.*

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INTRODUCTION

The Nigerian state is blessed with diverse human and natural resources. This means all the thirty six States of the Federation have one natural resource or the other. These resources include oil and gas, limestone, tin ore, iron ore, zinc, to mention just a few. Out of these resources oil and gas constitute 90%

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of Nigeria's foreign exchange and sources of revenue. However, the policies and principles that determine the distribution and sharing of the revenue accruing from the dominant resources have generated a lot of controversy in the country over the years. This controversy has been that of how to ensure equitable distribution of the resources (Adamolekun, 1989).

The above problem is indeed not peculiar to Nigeria but most federations in the world. But in Nigeria, the issue of how to ensure equitable sharing of resources is derived from the revenue sharing formula adopted. Some components of the Nigeria states argue that they are supposed to have control over resources that exist in their areas, hence the principle of derivation. This entails that such areas will have greater share of the resources so produced.

The federal government on the other hand has continued through legislation to exercise ownership over the allocation of these resources. Given that, the Nigerian state is comprised of 36 states and 774 local government areas as well as over 250 ethnic groups, there is a need to adopt a revenue sharing formula (fiscal formula) that will be in the best interest of all Nigerians. However, the Nigerian state has not come up with an acceptable fiscal policy, hence the problem of revenue allocation persist (Elaigwu, 1994).

The persistence of the problem of equitable revenue allocation and sharing is derived from the inability of the Nigerian state to adopt the principle of true federalism. In a true federal arrangement, no level of government is supposed to be subordinate to another, rather, all levels of government are supposed to be coordinate. Financial subordination which can only exist in the absence of equitable and fair resources allocation make mockery of federalism no matter how careful the legal forms may be presented. It can therefore be argued that each federating unit must have power to harness its resources for its development needs.

A look at fiscal policy in Nigeria shows that between 1946 and 1980, revenue allocation formula was reviewed eight times. These reviews are: Philipson Commission 1946, Hicks Philipson Commission 1951, Check Committee 1953, Raisman Committee 1958, Binns Committee 1964, Dinna Committee 1968, Aboyode Technical Committee 1977, and Okigbo Presidential

Committee 1980. These committees and commissions recommended various principles such as derivation, population, even development need and national interest to be applied in revenue sharing and allocation.

At the advent of democratic governance in 1999, 48.5% was allocated to federal government, 24.0% to states and 20.0% to local government areas, 1.0% derivation and 6.5% special funds (Jega, 2007). In August 2001, federal government was allocated 31%, states 16%, local government 16% and special fund 11%. This generated crisis resulting to the clamour for resource control by some federating units.

The above shows that the issue of fiscal federalism is problematic due to the character of the Nigerian federal system. There is need to tackle this problem by introducing a revenue sharing formula acceptable to all Nigerians.

This paper therefore examines the problems of fiscal federalism in Nigeria with a view to recommending ways of tackling them in order to ensure sustainable development in the country.

Conceptual Clarification

Fiscal federalism according to Musgrave (1959) and Gboyega (2010) concerns the division of public sector functions and finances among different tiers of government. This means, fiscal federalism is concerned with understanding which functions and instruments are best centralised and which are best placed in the sphere of decentralized levels of government. In other words, fiscal federalism has to do with how expenditure and fiscal instruments or revenues are allocated across different layers of the administration. For the purpose of this paper therefore, fiscal federalism is a set of guiding principles that helps in designing financial relations between the national and sub-national levels of government.

Principles of Fiscal Federalism in Nigeria

Gboyega, (2010) posits that, the concept of fiscal federalism was first introduced in Nigeria in 1946 following the adoption of the Richards constitution of 1946. He argues further that, 1946-1964 corresponds with the period when the founding fathers of Nigerian federalism grappled with the philosophy and practice of a federal form congruent with the country's diversity, the challenges of development and the emergent political temper of the federating units (Adeola 2008).

The fiscal policy or revenue allocation sharing formula in Nigeria has undergone series of changes. Certain principles and criteria were mobilised to guide the work of the various revenue sharing commission/committees in deciding on horizontal allocation among states and local government areas of the federation. These ranged from derivation, even development need, national interest, internal revenue effort, population, equality of states, to social development factor. According to Akpa (2007), the principles of fiscal federalism used presently by the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) include the principles of equality of states, internal revenue generation, social development factor, population density and derivation. These factors are explained below:

i. **Equality of States and Local Government.** This principle entails that revenue and resources of the nation should be shared equally to all states and local government areas that comprise the Nigerian state. This means, the states of the federation will have equal allocations while all the local government areas will also have equal share of the resources. This principle seems to be applauded by all but its application is yet to satisfy many Nigerians.

ii. **Population.** The principle of population seems to have been overwhelmingly accepted but its application has been at the centre of various social tensions in the country. This principle entails that revenue should be shared based on population density. The problem is that, census figures are always manipulated, disputed and rejected in the country due to the fact that population figures are a vital tool for resources allocation in the land. The First Republic indeed collapsed largely because of the disputed 1963 population census. So the principle of population in fiscal federalism in Nigeria has been difficult to implement given that people manipulate census figures because of its strategic importance in the allocation of resources in the country.

iii. **Derivation.** The principle of derivation entails that an extra share should be given to states from which the bulk of revenue has been derived beyond that which every other state receives. The original thinking that gave rise to this principle was to encourage at the time farmers who were producing the basic items of export for the country such as cotton, cocoa, groundnut, oil palm etc. If this were to be applied, then Benue State which produces enough food for local consumption and export should also be given an extra share of the revenue accruing to the country.

iv. **Internal Revenue Generation Effort** The aim of this principle is to encourage each level of government to strive harder in raising funds internally as opposed to an undue reliance on statutory allocations from federation account.

v. **Social Development Factor** The proxy measures for this principle include primary school enrolment, secondary commercial schools, enrolment and number of state hospital beds, water supply and average rainfall in five most recent years in the state capital. It is observed that the preceding is an improvement over what was done on the past when only primary school enrolment was used as a proxy measure for social development factor.

The above are the various horizontal principles of revenue allocation and fiscal federalism in Nigeria.The present revenue allocation formula for vertical sharing among the three federating units has the following variables:

Federating Units	Percentage
Federal government	x
State government	x
Local government	x
Special funds	x
Total	100%

Based on the above variables, Jega (2007) argues that the 1981 allocation of revenue Act which slightly modified vertical formula recommended as follows:

i. Federal government 55%

ii.	State government	30%
iii.	Local government	10%
iv.	Mineral producing states/derivation	2%
v.	Ecological problems	1%

The above shows that the history of revenue distribution in Nigeria is influenced by many factors such as equality, derivation, national development, and the politics of resource control. The derivation principle indeed has been the principle that has generated a lot of problems regarding fiscal federalism in Nigeria. This explains why the Niger-Delta people have embarked on sustained call for resource control in their areas.

Problems Facing Fiscal Federalism in Nigeria

The current revenue allocation formula in the country has posed a lot of problems and challenges to fiscal federalism. These problems are:

i. The revenue allocation formula allocates more funds to the federal government to the detriment of the states and local governments. The system also discourages strive for an increasing Internally Generated Revenue (IGR). This is because, most states wait for allocation from federation account without much effort at getting increased level of IGR.

ii. The fiscal system in Nigeria grants minimal fiscal autonomy to the sub-national governments in terms of revenue assignments as the major and indeed easily collectable taxes such as company income tax, value added tax, customs and excise duties, tax on petroleum products and education tax are assigned to the federal government. The sub-national government lacks financial autonomy especially during military regimes. The military incursion into governance in Nigeria distorts the built in mechanism in the constitution to address fiscal management problems. This problem is yet to be addressed in the present democratic dispensation.

iii. The revenue allocation and sharing formula in Nigeria has made the states and local government areas to be dependent on the federal government. This is contrary to the principles of true federalism.

For any federation to be sustained there must be fiscal decentralization and financial autonomy.

iv. Another problem of fiscal federalism in Nigeria is the use of land mass and population for computing horizontal revenue allocation formula. This principle is biased in favour of states with wide land mass and thin population. And given that population census figures are always manipulated, the use of population as principles of revenue sharing is not only wrought but unacceptable in a diverse country like Nigeria.

v. The equality principle as adopted may not be appropriate in Nigeria as the states of the federation differ in terms of resources endowments, existing capital formation etc. This is a serious challenge of fiscal federalism giving rise to the clamour for resource control by the Niger-Delta people.

vi. The principle of derivation has posed a problem as not all the basic items of export produced in the country are used as basis for the implementation of the derivation principle.

The foregoing analysis shows that, fiscal federalism in Nigeria has suffered a lot of problems. These problems range from the frequent changes in fiscal policy, the character of the Nigerian federal structure and the principles adopted in revenue allocation and sharing in the country. This has given rise to many problems such as call for resource control and frequent agitations by many federating units for the adoption of an acceptable resources/revenue sharing formula. This calls for the federal government to come up with a new revenue allocation formula in order to introduce a fiscal policy or revenue sharing system that is acceptable to all the federating units.

CONCLUSION

This paper examines fiscal federalism in Nigeria and the various principles that are employed in the allocation and sharing of the resources of the country. It has been established that the principles of derivation, population, equality, internal revenue effort and social development factors have negatively affected fiscal federalism in the country. This has resulted to frequent call for a reversal of the system and agitation for resource control. Given that true federalism entails equality among federating units, there is need for the Federal government to introduce a revenue allocation system that will be acceptable in meeting the aspirations of Nigerians for national development. This is because fiscal concentration at the centre to the detriment of the component units should be reviewed. Reliable revenue allocation should reflect federal character of Nigeria. The federal government has less responsibility and should therefore take less of the revenue generated.

There is need to decongest the enormous powers at the centre. This can be achieved through addressing issues of social injustice, inequality and imbalance in resource allocation as it affects the federating units.

Furthermore, there is need to depoliticise fiscal and revenue sharing process in the country.

Most importantly, there is need to entrench accountability, probity and selfless governance at all the levels of government. If this is done, the little resources available will be used for the provision of the needs of the people. This will in no small measure reduce the call for resource control and restructuring in the revenue sharing formula.

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