A Sociological Analysis of Fiscal Federalism and Sustainable Development in Post-Colonial Nigeria

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Abstract

This study attempts a Sociological analysis of fiscal federalism and sustainable development in the post-colonial Nigeria. Nigeria. In doing this, the study discusses concepts such as- federalism, fiscal federalism and sustainable development. The study adopted both evaluator and assessment methods, and used qualitative and secondary data sources such as journals, textbooks, relevant online information and other scholarly literature to analyze the various dimensions of revenue sharing formulas since 1960 and their economic implication on sustainable development in Nigeria .The paper also adapted 'deprivation theory' as theoretical framework to discuss the failure of the current fiscal relations in enhancing national development. Unarguably, fiscal responsibilities and taxing powers have remained considerably centralized and have been inhibited by several factors in Nigeria which include; the dominance of the central government in resources distribution, military interregnum in governance, and the centralized source of revenue on central government. The study, therefore, recommended that distribution of resources should be in the following formula; federal government (30%), states government (45%) and local government (25%). Similarly, the 1999 Constitution should be reviewed to allow states to have a stake in mineral deposits in their respective states and pay taxes to the federal government, while the devolution of power and fiscal responsibility to federating units must be pursued in earnest to stimulate growth and healthy competition among federating states.

Keywords: Conflict, Derivation, Development, Fiscal Federalism and Sustainable development

Introduction

Federalism as a form of political decentralization has been in practiced for several decades in Nigeria. The failure of successive regimes to address the issue of fiscal federalism might be unconnected with the complex nature of Nigerian polity, ethnic and religious diversity, economic underdevelopment, and inequality in educational development among states. Thus, the incessant agitation for true federalism and resource control had attested to the contention that Nigerian federalism is bedeviled by inherent contradictions which need immediate attention in order to forestall the disintegration of the country. According to (Wheare, 1963) federalism involves constitution and sharing of power and functions between the inclusive centre and other units of government. Therefore, a federal- state relation is a central component of intergovernmental relations in any federal system. On this note, (Wheare, 1963) stress that' autonomy and equality are some of the requisites for a federal system. On financial matters, according to him', "each level of government must be self-sufficient for a federal system to exist. He argues; If state authorities, for example, find that the services allotted to them are too expensive for them to perform and if they call upon the federal authority for grants and subsidies to assist them they are no longer coordinate with federal government but subordinate to it" Therefore, the desires of the various units to have a bigger share of the national cake for developmental purposes have been a contentious debate in Nigeria. The missing link between fiscal federalism and sustainable development, centralization of fiscal powers, the supremacy of the central government in determining the taxing and revenue capacity of other tiers of government thus remained the crux of this paper.

The dismantling of regional system and the subsequent centralization of both political and fiscal power at the centre by the previous military regimes and its consolidation by virtue of the 1999 constitution has not in any way promoted economic development in the country. Issues such as; inequitable distribution of wealth, resources control, insecurity and other challenging issues have casted shadow on economic future of Nigeria. The unbalance fiscal relations in favor of the centre has remained the obstacle to sustainable growth and development in Nigeria, just as the federal government is absolutely in position to muscle other tiers of government at will. These problems also bring out some fundamental questions such as;

(1) To what extent has fiscal power been centralized in Nigeria's federal system?
(2) How has the centralization of fiscal relations shaped and affected governance in Nigeria?
(3) To what extent has fiscal centralization affected economic sustainability in Nigeria?

Theoretical framework

This study made use of relative deprivation theory. Samuel Andrew Stouffer propounded 'relative deprivation theory'. The theory was no doubt criticized based on the failure of the people to join social movements when feeling discontent against the system as the theory assumed. However, the justification for the theory unarguably explains the current anger, frustrations, denials and injustice prevailing in the sharing of resource distribution in Nigeria political system. (Gurr, 1971) described relative deprivation as the tension that develops from discrepancy between the "ought and is" of collective value satisfaction and these dispose men to violence". The theory argues that people join social movement base on their own evaluation and the way they compared themselves with other groups who are in better position in the society. Scholars have at various interactions used this theory to explain inherent contradictions in Nigerian federalism where a particular Zone or region feels deprived to own and decide how to manage their own resources.

Therefore, relative deprivation relates an objective comparison between situation of individual or group of people to the rest of the society. It is a term used in social science to explain" feelings or measures of economic, political or social deprivation that is relative rather than absolute" (Kurt, 1999, P.67). This theory expresses resentment, anger and dissatisfaction of some groups of people who felt cheated and deprived in relation to equitable sharing of resources within Nigerian political system. The theory is also relevant to explaining Nigerian federation where oil producing states of Niger/delta felt deprived of what they perceived as values to which they are entitle. This explain why groups of people in the region engage in deviant behavior to express their anger as the central government could not match their objectives, (i.e.) true federalism and resources control. Today in Nigeria, there are allegations and counter allegations that one ethnic group dominate others regions in sharing of key political offices at the centre. This according to (Saleh, 2011, p. 23)" increases the likelihood of political violence in multiethnic Society".

Clarification of Concepts

Fiscal Federalism

Fiscal federalism poses some question on how the nature of financial relations in a federal system affects the distribution of the nation's resources. Fiscal federalism is a by-product of federalism. (Vincent, 2001, p.56) posits that in federalism, "each tier of government is coordinate and independent in its delimitated sphere of authority and also has appropriate taxing powers to exploit its independent source of revenue. Fundamentally, the concepts of fiscal relations connotes that the relationship between the centre and other components units should be partner in progress and not a senior-junior relationship. In other words, state government for instance should posses' financial autonomy and taxing power to carry out her financial responsibilities. The history of fiscal federalism in Nigeria could be dated back as 1940s when Willink commission was set up to addressed complains of the Minorities.

Fundamentally, the concept of fiscal relations connotes that the relationship between the centre and other components units should be that of partners in progress and not a senior-junior relationship. In other words, state government, for instance, should possess' financial autonomy and taxing power to carry out her financial responsibilities. Fiscal federalism demands that each level of government should have adequate resources to perform its functions without appealing to the other levels of government for financial assistance. (Musgrave, 1959, p.54) and (Qates, 1999, p.42) argue in support that "finances and functions of governments should be shared in a manner that is acceptable to all involved". Thus, for any federation to be sustained and productive in meeting the yearnings of her people there must be fiscal decentralization and financial autonomy". On this note, (Suberu, 2005, p.123) argued that "concentration of fiscal and real power at the centre which has engineered the competition for control of the centre has tended to become vicious, corrupt, politically and ethnically explosive".

Federalism

Federalism as a political concept presupposes that each level of government; federal, state and local government coexist with some measure of independence to carry out the desired responsibilities within their jurisdiction. The beauty of federalism is its ability of serving plural societies in terms of crises. According to (Roberts and Sombine, 2003, p. 89) "…when socially and culturally distinct people find themselves together in the same polity through circumstance of history, to live peacefully together and govern together, may have to strike a balance, which must be acceptable to all parties involved". Similarly, most of the countries operating federalism today, particularly Nigeria and India are operating under severe strain. The beauty of federalism is that it emphasis the "need for an orderly form of relationship among different levels of government in a nation (Aliff, 2015, p.72). However, to (Anyebe, 2015, p.15), it is a means "of establishing national order without sacrificing the freedom of the component parts.

The fundamental fact in federalism is the sharing of power and resources based on mutual agreement among the parts that form the federation. (Okunola, 2011, p.137) posited that "federalism is how about the various units that form the federation are autonomous and enjoying some measure of independence and self-governing without any distraction from the centre.

An Overview of Revenue Commissions and Allocation in Nigeria

The issue of revenue allocation formula has become a complex and most controversial issue facing the country. As (Arowolo, 2011, p.9) rightly observed, it is characterized by constant struggle, clamor for change, and very recently, violence in the form of agitation for resources control in the Niger/Delta". It is on this basis that agitation for fiscal decentralization has been persistent by concerns elites and other stakeholders, and which has so far been rebuffed by

Nigerian government. At the beginning of this agitation and crises in pre-independence and post- independence was the establishment of various commissions (1946-1999). These commissions however have not stopped the strident agitation for fiscal intergovernmental relations and decentralization of power to federating units for competitive development and growth. The commissions were explained in three dimensions.

First phase: (1946-1958). From the beginning of this face, the dominant principle upon which distribution of resources was based was derivation formula. We had Phillipson (1946), Hicks-Phillipson, (1951), Chick (1953) and Riesman (1958), all emphasized derivation. The principle of derivation means that all or some parts of the revenue generated from the region/state must return to the region/state. Each region shared as follows; north, 46 percent, west 30 percent and east 24 percent. Though, the principle (derivation) was vehemently opposed by those regions which were less endowed, the principle was later defended by northern and western regional bloc and thus applied in the 1950s and early 1960s.

Second phases: (1967-1979): Following the creation of twelve states in 1967 by the Gowon regime under decree No 15, 1967, distributive pool account was established for sharing of resources among the new states that were created in 1967. The decree failed to apply uniformity in the distribution of resources. However, following the establishment of Dina Commission of 1968, the Commission recommended basic needs, minimum standard, balance development and derivation. Ironically, the principles were not followed in revenue sharing but rather adopted population and equality of states. Aboyade Technical Committee of 1977 recommended a national minimum standard for national integration (22 percent), equality of access to development opportunities (25 percent), absorptive capacity (21 percent), fiscal efficiency (15 percent) and independent revenue effort (18 percent) and other criteria that later followed (Arowolo, 2011).

Third phases (1980-till date): The rejection of Aboyade Committee was immediately followed by Okigbo Commission on November 1979 which formed the basis for revenue allocation in 1980s. Invariably, both Aboyade and Okigbo de-emphasized derivation principle completely and advocated such principle as equality of access to development, opportunities, population, social development and internal revenue effort. However, as National Revenue Mobilization and Fiscal Commission (NRMAC) was established by General Ibrahim Babangida regime under decree No. 49 of 1989, Lt-Gen. Theophilous Danjuma Yakubu (Rtd) became the Chairman and recommended equity of states, population, social development factor, tax effort, and land mass/terrain. Following the recommendations of NRMACF in 1989, the President thus announced new Revenue allocation formula as follows.

Federal Government 50%, States (30%), Local Government (15%) and special fund (5%), while the special fund is distributed as follows; Federal Capital Territory (FCT) (1.%) ecological problems (1%), Stabilization (0%), Derivation (1%) and development of mineral producing Area (1.5%). Nevertheless, there were series of changes in the vertical revenue sharing most especially under Babangida administration until the termination of his regime on 26th August 1993. Thus, from 1985 to 1989, the allocation formula stood at; Federal (55%), States (32%) Local government (10%) while allocation to oil producing states and ecological problems stood at (1.5%) and (1%) respectively. Below are changes that occurred in vertical revenue allocation from (1980-1992).

Table1. Changes in Vertical Revenue Allocation by Babangida Regime

1981 Revenue January 1990 January, 1992 – March 19992 Allocation %

1981 Revenue January, 1990	January, 1992	February, 1992	March, 1992
Federal Government: 55%	50%	50%	48.0%
States Government: 50%	50.0%	25.0%	24%
Local Government: 10.0	15%	20%	20%
Special Funds: 4.5	5.0%	5.0%	7.5%

Source: Mbanefor, G F. and Egwaikhide (1998)

Table 2 Changes in Horizontal Revenue Allocation by Babangida regime

1981 Revenue Allocation Act	January, 1990	January, 1991
Equality of States 40%	40%	40%
Population 40%	30%	30%
Social Development Factor	20%	10%
Internal Revenue Effort	5.0%	10%
Land mass/Terrain	-	10.0%

Source: Mbaneforh (1998)

Table 2 presented the revenue allocation formula which was in use during the time. Under the former President Olusegun Obasanjo, and in line with the constitutional responsibility of National Revenue Mobilization and Fiscal Commission, (NRMAFC), the sharing of federally collected revenue was as follows; Federal (41.3%) States (31 %) Local (16%) Under the late former President Umaru Musa Yar'adua (2000-2010) and former President Goodluck Jonathan (2010-2015) the formula remained as; Federal (52.68%) state (26.72%) Local government (20.6%), while changes in horizontal allocation were as follows: equality (40%) population (30%) landmass and terrain (10%) IGR (10%) social development 10% while 13% was allocated to oil producing states as derivation funds. However, the need to arrive at acceptable formula for sharing of federally collected revenue has remained 'hard nut' to crack and as such created division between the people of the North and the South.

(i) **Vertical Allocation of the Federation Account; 1981 till date**

Okigbo and Aboyade Commission of 1981 de-emphasized derivation formula, in place of equality of access, development opportunities, population, land mass, etc. Nevertheless, allocation sharing formula depicts a power game as emphasis shifted completely from derivation to others formulas as revealed in various recommendations;

We have Vertical allocation: Federal Government: 53%, State Government: 30% Local Government 10% and Special 07%.

(ii) **Horizontal Allocation**

Minimum Responsibilities of Government—40%
Population Responsibilities of Government---40%
Special Development Factor of Government---15%
Internal revenue effort—05%

The special fund of 7% was to be shared as follows:

The Special Development Factor of 15%, Direct Primary School Enrolment was to take 11.25% and Inverse Primary School Enrolment was to take 3.75. It also recommended that each state should contribute 5% of its total revenue for sharing among its local Government Councils. (Vincent, 2001)**.**

Fiscal Federalism and Sustainable Development in Nigeria: Issue and challenges

The current formulas have not only rendered other tiers of government inefficient and less effective but had also succeeded in crippling the revenue generating capacity of the states and strengthened the hegemony of the central government which controls the largest share of the nation's resources.

The effect of concentration of fiscal and political power at the centre which has engineered the competition for control of the federal government has tended to be vicious, corrupt, politically and ethnically explosive (Suberu, 2002). The effects of the negative trends we are seeing today are set of incompetent leaders with primordial and parochial interest prevailing on common good of Nigerians. It was on these several reasons that political analysts have argued that concentration of resources and its attendant consequences have practically reduced Nigerian federal system into arena for dissemination of oil proceeds to sub-national units of government, communities, and various constituencies. This in effect has also promoted the culture of corruption, youth's militancy and other nefarious acts in contemporary Nigeria.

According to (Akpan, 1999, p.218-219) fiscal dependency has been entrenched by "the military government to enhance command of their regimented government and compel adherence of the weak states to their directive and dictates. Since only a strong economic base at the levels (in particular fiscal) can guarantee the political will required to check excessive of the federal government". According to (Akpan, this situation got complicated during endless creation of states as "the inordinate ambition of the military regime was to ensure that nobody challenge their administration which in effect created unviable states". Today, Nigerian-states are financially incapacitated as they all rely heavily on statutory allocation to the tune of "65-70% for payment of salaries and wages, while internally generated revenue (IGR) is on the average, of 15%" (C.B.N.1991:2000).

The following are some of the challenges facing fiscal federalism in Nigeria.

i. The question on how each level of government would have enough fiscal power to enable it maximizes its revenue and discharges its constitutional duties and still preserves its fiscal autonomy.
ii. The challenge of allocating the collected revenue equitably among all the tiers of government.
iii. The proliferations of states and local government areas have continued to pose problem for intergovernmental. relations in Nigeria.
iv. Over reliance on oil for foreign exchange earnings has continued to pose a problem for economic diversification and development, as all levels of government solely rely on centrally Oil collected revenue which has invariably created master-Servan relationship.
v. The problem of non-jurisdictional problem; such as imbalance in population, size of land area, resources endowment and levels of development

Result of the Findings

Base on the available facts and figures dealt with by the authors, it was revealed that the issue of revenue allocation had for long became contentious because of political interest among Nigerians elites. Thus, by virtue of paragraph 162 sections (2)1999 constitution as handed over by the military has strengthened the centralization philosophy of the federal government. This day, the centrist .philosophy has become a beautiful bride not only for democratically elected members of Nigerian federal law makers but also central government itself. While reviewing of fiscal relations and decentralization of powers have been resisted by federal government, findings revealed that Revenue Mobilization Allocation and Fiscal Commission (RMAFC) have also continued implementing allocation formula that ensured fiscal centralism and dominance. The cumulative effects of these negative trends are recycling of bad leadership, endemic corruption and other forms of impunities that are now difficult to eradicate.

Conclusion

The study focused on fiscal federalism and national development in relation to Nigeria. The outcome from the study clearly shows that Nigerian leaders have not demonstrated genuine willingness to address the challenging issues that incapacitated national development. The non-implementation of the constitutional provisions has not addressed the problem of efficient revenue allocation formula, state and local government's joint account, fiscal dependence and non-correspondence as a feature of fiscal federalism. The nature of fiscal federalism has not addressed national and sustainable development in Nigeria.

Recommendations

Based on the outcome of this study, the following recommendations were made to proffer solutions to the problem of fiscal federalism and sustainable development in Nigeria.

1. The lopsidedness in the revenue allocation formula which gives 50% revenue to federal, 35% to states and 15% to local government should be restructured in favour of states and local government to increase their capacity towards national development in their respective administrative units.
2. Since the states and local governments are the federating units in a federation, at least 60% of the revenue should be shared between these two tiers in a ratio to be determined by all relevant stakeholders to be more responsive to people's need.
3. There is need to strengthen the revenue based of both state and local government, by assigning more revenue source and eliminating non performing tax heads from their revenue collection.
4. Finally, state and local government must strive towards more effective and efficient collection of sources of revenue generation and plug all leakages in the IGR collection and utilization process

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