**FISCAL FEDERALISM IN NIGERIA: THEORY AND DIMENSIONS**

**TITLE PAGE**

Certification

Dedication

Acknowledgement

Table of Content

List of Tables

**ABSTRACT**

**CHAPTER ONE: INTRODUCTION**

1.1 Background of the study

1.2 Statement of the problem

1.3 Objective of the study

1.4 Research question

1.5 Significance of the study

1.6 Scope of the study

1.7 Research Methodology

1.8 Limitation of the study

1.9 Definition of terms

**CHAPTER TWO: REVIEW OF LITERATURE**

2.1 Conceptual framework

2.2 Nigeria’s experience with Federalism

2.3 Reasons for Nigeria adoption of Federalism

**CHAPTER THREE:FISCAL FEDERALISM THEORY AND DIMENSIONS**

3.1 Introduction

3.2 Fiscal Federalism

3.3 Theory Of Fiscal Federalism

3.4 The Review Of Revenue Commissions And Allocation Formula In Nigeria: 1946 – 1999

**CHAPTER FOUR: NATURE AND CHALLENGES OF FISCAL FEDERALISM**

**4**.1 Introduction

4.2 Nature And Challenges Of Fiscal Federalism

4.3 Prospects Of The Nigerian Federalism

4.4 Summary

**CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION**

5.1 Summary

5.2 Conclusion

5.3 Recommendation

**References**

**Appendix**

**ABSTRACT**

*The dynamism and complexity of Nigeria’s federalism has attracted academic scrutiny. This is because it has generated so many problems capable of threatening the corporate existence and continuity of the Nigerian state. This research, therefore, inquired into the causes of dissatisfaction and violent agitation arising from fiscal federalism and the adopted allocation formula. In achieving this, the research adopted both descriptive and analytical methods by relying on secondary sources for data gathering. It also adopted primary sources by interviewing the key figures involved in the process of allocation of resources. However, the research, however, concluded that the centralism and the age-long hegemony of federal government as well as the protracted period of interregnum rule of the military are some of the factors that contribute to the constant conflicts associated with fiscal federalism in Nigeria. The study therefore recommended that he is need for an efficient formula between the centre and other tiers of government is recommended.This formula should also satisfy the broad objectives of inter-regional equity and balanced national development. To this end the present vertical revenue allocation formula should be reviewed by the federal government to increase the percentage to lower governments in Nigeria to strengthen their fiscal capacity and enable them play strong role in nation building.*

**CHAPTER ONE**

**INTRODUCTION**

1.1 **BACKGROUND OF THE STUDY**

Fiscal decentralization has become fashionable regardless of levels of development and civilization of societies. Nations are turning to devolution to improve the performance of their public sectors. In the United States, the central government has turned back significant portions of federal authority to the states for a wide range of major programmes, including welfare, Medicaid, legal services, housing, and job training. The hope is that state and local governments, being closer to the people, will be more responsive to the particular preferences of their constituencies and will be able to find new and better ways to provide these services (Sharma, 2005:169).

Fiscal federalism can be explained as an arrangement that involves intergovernmental fiscal relations mostly in contemporary federations. Nevertheless, it is not a peculiarity of federal states alone; its elements are also noticed in most of the unitary states too. The concept of fiscal federalism is not to be associated with fiscal decentralization in officially declared federations only; it is applicable even to non-federal states (having no formal federal constitutional arrangement) in the sense that they encompass different levels of government which have de facto decision making authority (Adamolekun, 1983).
This, however, does not mean that all forms of governments are 'fiscally' federal; it only means that 'fiscal federalism' is a set of principles that can be applied to all countries attempting 'fiscal decentralization'. In fact, fiscal federalism is a general normative framework for assignment of functions to the different levels of government and appropriate fiscal instruments for carrying out these functions (Oates, 1999: 1120)
Nigeria is a plural country that can be aptly classified as a federal state. The establishment of the Nigerian federal structure dated back to the 1946 adoption of Richard’s constitution which granted internal autonomy to the then existing regions of Nigeria. Also, the adoption of the Littleton constitution of 1954 laid further credence to the federal structure of Nigeria (Nwosu, 1980).
Even in non-federal states, there has been a growing movement towards greater fiscal decentralization in recent years. Some analysts have attributed this to globalization and deepening democratization the world over on the one hand and increasing incomes on the other (Tanzi, 1996). Other specific reasons for the increasing demand for decentralization are:
Central governments increasingly are finding that it is impossible for them to meet all of the competing needs of their various constituencies, and are attempting to build local capacities by delegating responsibilities downward to their regional governments. Central governments are looking to local and regional governments to assist them with national economic development strategies.
Regional and local political leaders are demanding more autonomy and want the taxation powers that go along with their expenditure responsibility (Ozo-Eson, 2005:1)
Over the years, the issue of fiscal federalism has remained dominant and most contentious in Nigeria’s polity. This is because of its multi-dimensional perspectives. Over the years the fiscal federalism in Nigeria has crystallised and remained dynamic as a result of its multiplicity in terms of ethnic composition and pluralism vis-à-vis socio-cultural dimensions. It is naturally expected, therefore, that interactions in terms of fiscal relations will be characterised by hostile competition, unending struggle and survival of the fittest syndrome. The centralised nature of the military hierarchical structure and the exploitative tendencies of the colonial government placed the federal government at an advantage in post colonial Nigeria.
Invariably, the financial hegemony enjoyed by the Federal Government over the thirty six (36) states and seven hundred and seventy four (774) local governments has created disaffection in the Nigerian federation. It reinforces the structural vulnerability of the component units while simultaneously intensifying the pressures for better federal economic patronage.

**1.2 Statement of the problem**

The federal system of government was set up for the purpose of national unity in the plural society like Nigeria and to preserve the distinct social identities valued by its constituent parts. Moreover, the implementation of the federal system in the Nigerian context and Nigeria‟s political system has continued to work with minimum unity and diversity. Competition basically prompted by cultural common distrust progressively deteriorates the stuff of Nigerian Authority. Nigeria accepted federalism as a means of accomplishing its much-needed goal of national unity among people of different religion, ethnicity, and culture. In essence, the federalism so adopted is expected to lessen the massively destructive inter-ethnic competition and tension, alleviate the usually assumed fear of majority and minority domination, and bringing government closer to the people and give these diverse groups more opportunities, thereby integrating the country but the opposite is the order as the unification has resulted in unequal power sharing and resources allocation among the general populous across the nation. Especially between the majority and minority ethnic groups. The problem of inequality in power and resources allocation among the citizens has created a wide gap as the ethnic majority has dominated the few minorities in all sphere of life in the country especially in the power and resources allocation. The domination of some state regions as well as the minority ethnic groups has created a wide vacuum which leads to ethno religious conflict across the nation hence maki9ng it pertinent for us to critically assess the Nigerian federalism.

**1.3 Objective of the Study**

The main objective of the study is to critically examine Fiscal Federalism: Theory and Dimension. Specifically the study seeks :

1. To examine why Nigeria, adopt a federal system of government
2. To examine the nature of dissatisfaction and violent agitation arising from fiscal federalism.
3. To explore the prospect of Nigerian federalism

**1.4 Research Question**

The research would be guided by the following research questions:

1. What are the reasons that prompted Nigeria, adopt a federal system of government
2. What is the nature of dissatisfaction and violent agitation arising from fiscal federalism and the adopted allocation formula.
3. What are the prospect to enhance Nigerian federalism

1.5 **Significance of the Study**

Findings from the study will be relevant to the government, law makers and all the public stakeholders. The research will enlighten them on the need to reevaluate the current practices of Nigeria Federalism in other to favour all ethnic groups as well fulfil the goal of unification. More so findings will add to the body of empirical knowledge and serve as reference material to scholars and student who wishes to conduct further studies in related field.

**1.6 Scope of the study**

The scope of this study borders on a critical assessment of Fiscal Federalism: Theory and Dimension The study is therefore limited to the period covering first to fourth republic.

**1.7 Research Methodology**

This research adopted a descriptive and analytical approach. Data were generated through secondary sources of data collection. In preparing this article several books, journal articles, newspapers, and magazines were systematically reviewed and discussed the case under investigation. More so the design adopted is case study approach considering the nature of the topic because this approach helps the scholar to understand the depth case or cases under investigation. Provides an in-depth understanding of a case or cases under examination. It also assists in Developing an in-depth explanation and examination of a case.

**1.8 Limitation of the study**

An attempt was made to conduct a comprehensive research work on this project so as to make it a board base text to all manner of people. However, the inadequate finances and limited time period allowed for the completion of this project was not considered enough and could not allow for a thorough and in-depth work to be done.

**1.9 Definition of terms**

**Federalism:** Federalism is a mixed or compound mode of government that combines a general government (the central or "federal" government) with regional governments (provincial, state, cantonal, territorial or other sub-unit governments) in a single political system.

**Fiscal Federalism:** Fiscal federalism deals with the division of governmental functions and financial relations among levels of government.

**CHAPTER TWO**

**REVIEW OF LITERATURE**

**2.0 INTRODUCTION**

Our focus in this chapter is to critically examine relevant literature that would assist in explaining the research problem and furthermore recognize the efforts of scholars who had previously contributed immensely to similar research. The chapter intends to deepen the understanding of the study and close the perceived gaps.

**2.1 CONCEPTUAL REVIEW**

**Federalism** Understanding federalism as a larger concept will help facilitate the understanding of fiscal federalism. This is because federalism is the operational context within which fiscal federalism is situated. Thus, it is an integral aspect of federalism. Federalism refers to a political system where there are at least two levels of government. In such cases, there is the juxtaposition of two levels of power of a central government otherwise called the federal government and other states labelled variously as states, regions, republics, cantons or unions (Ajayi, 1997:150)).
Federalism is derived from the Latin word “foedus” meaning covenant. It is a political concept in which a group of members are bound together by covenant with a governing representative head. The term is also used to describe a system of the government in which sovereignty is constitutionally divided between a central governing authority and constitutional political units (like states or provinces). Federalism is a system in which the power to govern is shared between national state governments, creating what is often called a federation (Akindele and Olaopa, 2002). It is a political theory that is divergent in concept, varied in ecology and dynamic in practice. It has to do with how power is distributed or shared territorially and functionally among the various units in a federation.
 Also, Itse Sagay (2008, A11) conceptualized federalism as: an arrangement whereby powers within a multi-national country are shared between a federal government and component units in such a way that each unit, including the central authority exists as a government separately and independently from others, operating directly on persons and properties with its territorial area and with a will of its own apparatus for the conduct of affairs and with an authority in some matters exclusive of others.
In analysing this purview, it is apparent that each unit of government within a federation exists, not as an appendage of another government, but as an autonomous entity capable of conducting its own will free from directive by any other government. Asobie’s (1985, 26) perspective places emphasis on the intricacies of federalism. He identified two broad areas of cooperation in federalism.
The first relates to capacity of citizens, as individuals and groups, to relate to each other federally, that is as partners respectful of each other’s integrity while cooperating for the common good in every aspect of life, not just in the political realm.
The second area views federalism as a social phenomenon which emphasises the existence of essentially permanent religious, ethnic, cultural or social groups, camps or pillars around which a polity is organised.

By this, federalism represents a flexible compromise between and among forces of unity and consensus on which fundamental agreements exist with diversities over certain issues that relate to culture, geography, and religion. Federalism, a system which Nigeria operates constitutionally for over sixty-five (65) years refers to the plan of government with more than one level tier of government, each with diverse taxing authorities, expenses and responsibilities which in Nigeria, comprises of three levels (Federal/Central, 36 States and 768 Local Government) of the federation (Shehu, 2017:239). A study by Fatile and Adejuwon (2009), Majekodunmi (2015) sees federalism as a system of governance is practical, lively, serviceable and developing. It can only struggle on discussion, negotiation, compromise, bargaining, and agreement between the integral governments. It grows under a system of support and interdependence. Similarly, a study by Wheare (1963), noted that the discussion of modern federalism seems to have started in the work of Kenneth C. W who saw federalism as a constitutional arrangement which divides the lawmaking powers and functions between two levels of government in such a way that each within its individual spheres of authority and capability, is independent and organize.

Tella, Doho & Bapeto (2014) refer to federalism as a political philosophy in which members of subnational groups are bound together with a governing representative head and a system of government in which sovereignty is constitutionally divided between a central governing authority and other constituent political units, such as states, regions or provinces. Federalism is then that structure of government in which exercise of governmental functions is shared between the central government and the federating units. It is used to describe the system of governance in a country whereby the exercise of governmental power is shared through constitutional provisions, among different levels of co-ordinate governments (Ugwuja & Ubaku, 2014, p.6). According to Burgess (2006) the meaning of federalism is only locatable within the context of a federation, which he describes as a particular kind of state, and federalism is the thinking that drives and promotes it. Burgess (2006) further takes federalism to mean the recommendation and (sometimes) the active promotion of support for federation, which he sees as a distinctive organizational form or institutional fact, the main purpose of which is to accommodate the constituent units of a union in the decision-making procedure of the central government by means of constitutional entrenchment. Federalism consequently informs federation and vice versa in a complex relationship. Hence, much federalism differs widely in their content as they reflect different constellations and configurations of cleavage patterns both in a territorial and nonterritorial sense (Burgess, 2006).

**FEATURES OF FEDERALISM**

The features of Nigerian federalism are identified in Bello (2016, p.24) to include:

1. division of governmental powers between the federal and regional or state governments;
2. derivation of powers of different levels of governments from the constitution;
3. adoption of a written and rigid constitution; - supremacy of the central government;
4. the existence of a supreme court for judicial interpretation and review; - unified police force;
5. decentralization of the public service and judiciary;
6. the existence of a bicameral legislature at the federal level; -
7. the principle of federal character, reflected in all national affairs and opportunities and
8. a three tier system of government.

The most cogent, clearly expressed and the most acceptable definition is that of K.C Wheare. All other formulation from other scholars like Livingstone, Macmahon, and Riker are variations of his work. In his book he talked about ‘‘federal principle’’ i.e. the method of dividing powers so that general and regional governments are each, within a sphere, co-ordinate and independent of one another. Thus, Wheare’s proposition posits that the federal principle essentially entails a legal division of powers and functions among levels of government with a written constitution guaranteeing and reflecting the division. Wheare’s formulation of federalism is been drawn correctly from the United States of America which is regarded by him as the archetype of federal government. Since other formulation of federalism from other scholars are variations of his work, the basic tenets or elements of federalism according to K.C Wheare will be used as a templates to determines Nigerian federalism and the extent to which Nigeria has fulfilled the basic tenets of federalism. The basic tenets according to him are:

1. There must be at least two levels of governments and there must be constitutional division of powers among the levels of governments.
2. Each levels of government must be co-ordinate and independent.
3. Each levels of government must be financially independent. He argued that this will afford each levels of government the opportunity of performing their functions without depending or appealing to the others for financial assistance.
4. There must be Supreme Court of the independent judiciary. He argued that in terms of power sharing, there is likely to be conflict hence, there must be independent judiciary to resolve the case.
5. In terms of the amendment of the constitution, no levels of government should have undue power over the amendment process.

He maintained that, once a country is able to satisfy these conditions, such country is said to practice federalism.

**Principles of Federal Character**

 Federal Character Commission was established in 1996, to implement the federal character principles, which aim at “ensuring free, fair and equitable distribution of positions: socioeconomic amenities; and infrastructural services among the federating unit of the nation”. It's obviously established to serve as a watchdog of government ministries, departments and agencies (MDAs) in ensuring an even distribution of workforce that reflects ethnic diversity and the geopolitical divides of the country. And to make sure that these socio-economic amenities and development infrastructure are shared equally among the citizens in the nation (FCC, 2018). Furthermore, it is observed by FCC (2018), that Federal Character had defined the nation into federal, state and local government levels as channels of distribution to the federating units for ease implementation. Allocation at the national level, this would be shared based on the 36 State and Abuja or the six Geo-political Zones or Northern and Southern regions; depending on the available resources. At the state level, the federating units shall be the number of the Local government in the State or three Senatorial districts within the state. While the federating units at the local government level shall be the electoral wards. Considering the heterogeneous nature of Nigeria, that comprises many individuals of a different background. Different researchers have at various times given diverse clarification as to the meaning of the term Federal Character (Ekpu, & Uhunmwuangho, 2012). However, Federal Character refers to “the policy of equity in the representation of all sections of the country in government bureaucracies (Omo-Omoruyi, 1995)”. Although, this principle is only applicable in: federal appointments and promotions and retrenchment, admissions and scholarships, contracts award, citing of projects, agricultural, industrial academic and research institutions, the army, sports and games, especially the most highly priced football team selection and field of play (Ekpu, Christopher & Uhunmwuangho, 2012; Omo-Omoruyi, 1995: 123). From the above, therefore, it is obvious that the principle of federal character has not lived up to expectation, yet it is still entrenched in our Nigerian Constitution. A study by Oyovbaire (1979), revealed that the administration of General Sani Abacha recognized the limitations of the federal character principles on assumption of office. This was why his administration set up the Federal Character Commission to review the principle of the federal character and identify its limitation (Oyovbaire, 1989). Diamond confesses that the present postulation that the constitutional obligation for reflecting the federal character of the country in national affairs needs the representation of every state in federating bodies. Even in the situation where it may be hard to find an appropriate knowledgeable individual from every state, is unwieldy (Suberu, 1988).

**2.2 NIGERIA’S EXPERIENCE WITH FEDERALISM**

The formal adoption of the federal principle in 1954 in Nigeria was preceded by two conferences held at the instance of the British authorities. The first was the 1953 London conference which was attended by some Nigeria leaders; the second was the 1954 Lagos conference. In the 1953 conference, a federal system was agreed upon. This was consolidated in1954. An exclusive list for the federal government and a residual list for each the regions were dawn up with a provision that in case of conflicts, the federal law should prevail. The colonial government’s attempt at integrating the various nationalities in a manner that would achieve higher levels of mutual, national identity and consciousness (Osadolor, 1998:34) provided a major incentive for the adoption of the federal system in Nigeria. This policy was essentially, adopted as a mechanism of accommodation, which gave the component units equal and coordinate juridical status.

The Nigerian federation is a product of British colonialism and accordingly an imposition leading to a problematic geopolitical synthesis. This began in 1914 with the amalgamation of the former colonies and protectorates of Northern and Southern Nigeria. After the amalgamation, governmental powers started to be shared between the central government headed by the Governor-General and the governments of Northern and Southern protectorates headed by the Lieutenant Governors. With the existence and recognition of the two autonomous parts of Northern and Southern provinces, the administrative system of Nigeria wore an outlook of a federation (Thom-Otuya, 2013, p.30). But the proper seed of federalism was not sowed until 1946, when the Richards Constitution partitioned the country into three different regions (the Northern, Western and Eastern Regions of Nigeria).

Nigerian comprised of a diverse group of people coming from different ethnic groups, and the rivalry between them can become a serious problem. In Nigeria, we see that different group of people from different geopolitical regions seek power, and sometimes this can lead to disagreement and ethnic conflict the various ethnic and religious groups. We can consider the lack of cohesion and inability of parties to accept defeat in order to promote national unity as one of the major reasons for ethnic rivalry in the Nigerian context (Diana, 2019).

The origins of Nigeria's federalism lie not in the pluralities of economic and geographic regions or of ethnic nationalities, but in the plurality of colonial administrative traditions imposed by the British. Different administrative traditions were especially evident in the Northern and Southern Regions of Nigeria. These traditions produced regional rivalry and conflict that were entrenched in the Nigerian polity by the processes of consolidation and nation-building (Majekodunmi, 2015:107). In a related development a study by Adigwe (1974), disclosed that Nigerian federalism was created by the British administration. Although, before the advent of British colonial masters, the area now call Nigeria was occupied by individuals who belonged to dissimilar kingdoms, empires, and societies, which were customarily managed. However, these ethnic groups were characterized by conflict and little supports or cooperation. Besides, these immoralities as ritual, flesh-eating, killing, and individual‟s assassination were widespread in part of the nation (Adigwe, 1974). A study by Findlay (2018) and Silas (2018), disclosed that Nigeria comprises more than 300 ethnic groups and over 500 Spoken Languages, the official Language is English. Similarly, Ojo (2009), observed that Nigeria is one of the most culturally diverse nations in the globe with more than 250 ethnic groups, some of which are larger than several sovereign states of modern Africa. Nigeria, like many other nations branded by socio-economic, cultural, ethno linguistics, and political heterogeneities, it started to adopt federal system from October 1954, about forty years later when the British colonial masters together with (in addition to) the nationalists and politicians constitutionally introduced a federal system in order to accommodate people of different background, culture, religion, ethnicity among others. It is observed that the federal system of administration has being in operation since then except for a short period of Ironsi‟s military regime January-July 1966. The operation of this system is nevertheless, not without some level of achievement and limitations (Aliyu & Isah, 2018). Nigeria been a sovereign nation, faces many challenges, the greatest impediment to the nascent democracy is the persistent insecurity of lives and property, as showed by the flood of political assassinations, religious conflicts and federalism, armed robbery attacks, coupled with the seeming powerlessness of security agencies to knob felonious acts (Ekpu, & Uhunmwuangho, 2012). Still, the situation is deteriorated as a result of high and increasing number of unemployed youths in the country some of whom are ready recruits for criminal activities as well as the problem of majority - minority domination (Ekpu & Uhunmwuangho, 2012; Tribune, 2002). These reports were from the editorial observation in a national daily in Nigeria indeed, exemplifies the central argument of this study, the aim of which is to analyze Nigerian federalism problems and prospects. And to maintain the existing discussion on sustainable development and security which is a current issue in Nigeria and Africa at large. Federalism represents an exclusive form of governmental arrangement. This is because, it has to do with the organization of the state in such way that would promote unity and at the same time to preserve the existing differences within a predominant national entity (Majekodunmi, 2013).

The origins of Nigeria's federalism lie on the plurality of colonial administrative traditions imposed by the British government. But not in the pluralities of economic and geographic regions or of ethnic nationalities. Different administrative traditions were especially evident in the country. These traditions shaped regional rivalry and conflict that were rooted in Nigerian society by the processes of alliance and nation-building. After independence, this regional opposition became the basis for causing conflicts between people of the different regions, region, because of the culture economy and ethnicity. In efforts to minimize this rivalry under the federal system, more states were created to accommodate numerous group interests (Majekodunmi, 2013). However, the separating effects of ethnic-regional federalism were directly expressed in quite a lot of other political evils that attacked Nigeria in the sixties, as well as: The 1962 declaration of a state of emergency in the Western region; the bitter ethnic-regional dispute over the 1962-63 census; the 1964 federal election crisis; the 1965 western election disaster; the ultimate takeover of the First Nigerian Democratic Republic in 1966 after a bloody ethnic military coup; the complete disintegration and politicization of the military formation along ethnic- regional background; the struggled secession of the Eastern region, under the leadership of its Igbo military governor, Odumegwu Ojukwu, as the independent Republic of Biafra; and, the eventual outbreak of the 30-month civil war, which claimed an estimated one million lives, mainly in the ill-fated Biafra (Osaghae & Suberu, 2005:18). Perhaps, the civil war could have been prevented if the country‟s Igbo first military head of state, General Aguiyi-Ironsi, had reorganized the federation, for instance, founding new subfederal regional units for Nigeria‟s agitated minorities in the Northern and Southern regions. But unfortunately, Ironsi‟s unsupported abolition of federalism through the amalgamation decree of May 1966 was generally understood as an attempt to replace Northern dominion under the uneven regional federalism with Igbo domination under an even more hateful unitary system. This Decree instantly triggered anti-Igbo killings in the North, which were followed by the killing of numerous Igbo soldiers (including Ironsi himself) in the counter-coup of July 1966, and an even more massive round of anti-Igbo murders in the North in September 1966. The May-September 1966 exterminations of thousands of Igbos in the Northern region, and the attendant arrival of Igbo migrants back into the Eastern part of the nation, more than any other single factor, engendered popular Igbo support for the retreat (Osaghae & Suberu, 2005). The amalgamation of the Northern and Southern region is surrounded with challenges among people of different ethnoreligious groups. Nigerian Dailies reported that over 80 protesters for the secession of the Biafiran region from Nigeria have been arrested, detained and imprisoned this was because of resources and power allocation between the Northern and Southern regions (Vanguard News, 2016).There was also fear by the minority groups that they would be dominated by the majority ones.

 **VISION AND MISSION OF NIGERIAN FEDERALISM**

Federalism is a system of government where power is been shared between the state, local and federal government. And it is meant to unite people in a society who are varied culturally, ethnically, religiously, and geographically. Given this, it is necessary that where there is the functional government in place, it must endeavour to provide its people with sufficiently and equitably distribute resource and powers among these different groups (Awa, 1976). But in the Nigerian context, there are cases where governments violated the principle of federalism, of resources and power allocation among its citizens, it is noted that federal system in Nigeria is in theory not in practice. Though, Nigeria can be said to be operating the federal system of government, whereas, in actual sense, the nation is operating based on the unitary system. Thus, the problem with federalism in Nigeria is the mixture of this clause, particularly as it has to do with power and resource distribution (Awa, 1976).

**Economic Federalism:** Federalism if properly applied will lead to economic development in the country. The idea of a federal system is to accomplish economic development and to establish an effective administration.Federalism leads to stability in the economy and helps in the elimination of any form of crises that may occur because of ethnic and religion competition. 

**Political Stability**: Federalism brings political stability, it also helps in promoting unity and bring government closer to the people.

**Unification Tool:** Federalism help in uniting people of different culture and traditions in the country. It was established from the knowledge of peaceful coexistence among the people, federalism brings firmness, unity and promotes national integration.  Federalism is all about national unity, and it creates unity and unites the peoples of the different ethnic and religious group under one government. 

 **Clarity on Separation of power:** Federalism helps in removing the problems of separation among the various ethnic and religious groups.  It again helps in minimizing the problem of majority and minority domination in the nation.  Removing the problem of unequal distribution of national resources: with the proper application of the federalism, the problem of unequal distribution of national resources, the budgetary allocation will be removed.

**2.3 REASONS FOR NIGERIA ADOPTION OF FEDERALSM**

**FACTORS NECESSITATING THE ADOPTION OF FEDERALISM IN NIGERIA**

**Heterogeneous Ethnic Groups:** Nigeriais a heterogeneous society consisting of diverse ethnic groups. These various ethnic group had different cultural backgrounds which did not support the establishment of a unitary system. It gave rise to the adoption of federalism.

**Historical Factors:** The different ethnic groups in Nigeria had developed different administrative structures. The colonial principle of indirect rule allowed each region to preserve its cultural and traditional practices different from those of other regions. From a historical point of view, the different groups had enjoyed regional autonomy, such that they could not give all their power to a single centralized authority as is the case with the unitary system.

**Differences in the Levels of Development:** the differences in the developmental levels of the major ethnic groups contributed to the adoption of federalism. There were differences in social, educational, economical, and political development. These differences degenerated into ethnic rivalry which made the different regions want to preserve their regional autonomy.

**Size and Population:** considering the large size of the country and its large population, federalism would bring about administrative convenience. Nigeria covers an area of over 913,073 square kilomitres, and it would facilitate administrative efficiency if the activities of the regions were coordinated by a central authority.

**Divide and Rule Policy of the British Colonial administration:** the British policy of divide and rule was a deliberate attempt to keep Nigeria weak and decentralised. The British considered unity among the various ethnic groups as a threat to their imperialistic interest.

**Fear of Domination:** there had been suspicion among the various ethnic groups, particularly the major ones the Yoruba, the Igbo, and the Hausa. There was also fear by the minority groups that they would be dominated by the majority ones.

**CHAPTER THREE**

**FISCAL FEDERALISM THEORY AND DIMENSIONS**

**3.1 INTRODUCTION**

This chapter considers the dimensions of Nigeria Fiscal Federalism, and the nature of dissatisfaction and violent agitation arising from fiscal federalism and the adopted allocation formula.

* 1. **FISCAL FEDERALISM**

 Fiscal federalismis concerned with “understanding which functions and instruments are best centralized and which are best placed in the sphere of decentralized levels of government” (Oates, 1999:1120). In other words, it is the study of how competencies (expenditure side) and fiscal instruments (revenue side) are allocated across different (vertical) layers of the administration. An important part of its subject matter is the system of transfer payments or grants by which a central government shares its revenues with lower levels of government.
 Fiscal Federalism is characterized by the fiscal relations between central and lower levels of government. That is, it is manifest by the financial aspects of the development of authority from the national to the regional and local levels. Fiscal federalism covers two interconnected areas. The first is the division of competence in decision making about public expenditures and public revenue between the different levels of government (national, regional and local). The second is the degree of freedom of decision making enjoyed by regional and local authorities in the assessment of local taxes as well as in the determination of their expenditures (Kesner-Skreb, 2009:235).
 In fact, fiscal federalism is a general normative framework for the assignment of functions to the different levels of government and appropriate fiscal instruments for carrying out these functions. Sharma (2005:38) perceives fiscal federalism as a set of guiding principles, a guiding concept that helps in designing financial relations between the national and sub-national levels of the government, fiscal decentralization on the other hand as a process of applying such principles.

Fiscal federalism concerns the division of public sector functions and finances among different tiers of government (Ozo-Eson, 2005).Fiscal federalism is characterized by fiscal relations between central and lower levels of government. The fiscal relationships between and among the constituents of the federation is explained in terms of three main theories, namely, the theory of fiscal relation which concerns the functions expected to be performed by each level of government in the fiscal allocation; the theory of inter jurisdictional cooperation which refers to areas of shared responsibility by the national, state and local governments, and the theory of multi-jurisdictional community (Tella, 1999). In this case, each jurisdiction (state, region or zone) will provide services whose benefits will accrue to people within its boundaries, and so, should use only such sources of finance as will internalize the costs.

**3.3 THEORY OF FISCAL FEDERALISM**

 The basic foundations for the initial theory of Fiscal Federalism were laid by Kenneth Arrow, Richard Musgrave and Paul Sadweh Samuelson. Samuelson’s two important papers (1954, 1955) on the theory of public goods, Arrows discourse (1970) on the roles of the public and private sectors and Musgrave’s book (1959) on public finance provided the framework for what became accepted as the proper role of the state in the economy. The theory was later to be known as “Denationalization Theorem” (Ozo-Eson, 2005).

 This framework identifies three roles for the government sector. These are correcting various dimensions of market failure, maintaining macroeconomic stability, and redressing income inequality. The central government is responsible for the correction of market failure and maintenance of macroeconomic stability,while the sub-national governments and the central government are jointly responsible for redressing income inequality (Ozon-Eson, 2005).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 exists, 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 central provision.

 This principle, which Oates (1972) has formalized into the “Decentralization Theorem” constitutes the basic foundation for what may be referred to as the first generation theory of fiscal decentralization (Oates, 2006a;Bird, 2009). The theory focuses on situations where different levels of government provide efficient levels of outputs of public goods “for those goods whose special patterns of benefits are encompassed by the geographical scope of their jurisdictions” (Oates, 2006b). Such situation came to be known as “perfect mapping” or “fiscal equivalence” (Ma, 1995; Olson, 1996).Nevertheless, it was also recognized that, given the multiplicity of local goods with varying geographical patterns of consumption, there was hardly any level of government that could produce a perfecting mapping for all public goods. Thus, it is recognized that there would be local public goods with inter-jurisdictional spill-overs. 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 resort to traditional Pigouvian subsidies, requiring the central government 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 is assigned to the lower tiers of government. The other two roles of income distribution and stabilization are regarded as suitable for the central government.From the foregoing, the role assignment which flows from the basic theory of fiscal federalism is summarized as follows: 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 good 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 is to determine the appropriate taxing framework. In addressing this tax assignment problem, attention is paid to the need to avoid distortions resulting from decentralized taxation of mobile tax bases.

 Gordon (1983)emphasizes 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 are 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 forlocal governments. Benefits 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 individual or firms (Olson, 1982).

 The final element of this basic theory 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 are mainly two. The first which is on efficiency grounds sees equalization as a way of correcting for distorted migration patterns. The second is to provide assistance to poorer regions or jurisdictions. Equalization is important in a number of federations. For example, Canada has an elaborate equalization scheme built in to her inter-governmental fiscal arrangements (Boadway and Hobson, 2009; Weingast, 1995).It necessary to point out that recent literature emphasizes the importance of reliance on own revenues for financing local budgets. A number of authors (Weingast, 1997; Mckinnon, 1997) draw attention to the dangers of decentralized levels of government relying too heavily on intergovernmental transfers for financing their budgets. These are lessons that Nigeria’s fiscal system should draw from in order to ensure macroeconomic stability.

**3.4 THE REVIEW OF REVENUE COMMISSIONS AND ALLOCATION FORMULA IN NIGERIA: 1946 – 1999**

The issue of fiscal federalism is a unique one as it has generated intense debate in Nigeria. Arowolo (2011, p.9) notes that “It is characterized by constant struggle, clamour for change, and very recently, violence in the form of agitation for resource control in the Niger-Delta”. Agitations for more decentralized fiscal arrangement by lower tiers of government have continued to be resisted by a leviathan federal government.Various commissions and committees have been set up to address this issue over the years. These committees will be examined under three phases of revenue allocation in Nigeria.

**THE FIRST PHASE OF REVENUE ALLOCATION, 1946-1964**

The task of the early fiscal commissions, from Phillipson Commission of 1946 to Sir Louis Chicks Commission of 1954 was limited to allocating equitably to the regional governments total “non-declared” revenue(consisting mainly of import and export duties and excise and company taxes) which, under the Constitution,was determined by the central government. Phillipson Commission recommended the use of derivation and even development as criteria for distribution of revenue. Each region’s share were as follows: North, 46 percent; west, 30 per cent and East, 24 per cent.

 The Hick-Phillipson Commission (1950) recommended need, derivation, independent revenue or fiscal autonomy and national interest as the criteria for revenue sharing. Chicks Commission (1954) recommended derivation. Raisman Commission (1957) Raisman Commission recommended a Distributive Pool Account (DPA) shared among the regions as follows: North, 40%; East, 31%; West, 24% and Southern Cameroun, 5%.

 In 1961, Southern Cameroun left the federation, and the DPA was redistributed as follows: North, 42%; East,33% and West, 25%. In 1963, when the Mid-West was created the share of the then Western Region was divided between it and the new region in the ratio of 3:1 (Ewetan, 2011, p. 98-99; Arowolo, 2011, p. 10). The Binns Commision (1964) rejected the principles of need and derivation. In its place, it suggested regional financial responsibility and percentage division of 42% to the north, 30% to the east, 20% to the west, and8% to the mid-west.

**THE SECOND PHASE OF REVENUE ALLOCATION, 1967-1979**

 Following the creation of 12 states in May, 1967 the Constitutional (Financial Provisions) Decree No. 15 of1967 was promulgated to share the revenue in the Distributable Pool Account (DPA) among the new states as follows: East Central, 17.5 per cent; Lagos, 2 per cent; Mid-West, 8 per cent; the six Northern, states 7 percent; South Eastern, 7.5 per cent; Rivers, 5 per cent; West, 18 per cent. The decree did not apply any uniform principle to all states. In particular, it failed to take cognizance of the key elements which formed the basis of the previous allocations of revenue among the regions, namely, population, derivation, consumption, among others (Ewetan 2011, p. 99).The Dina Commission (1969) recommended national minimum standards, balanced development in the allocation of the states joint account and basic need (Arowolo 2011, p. 10).

 Subsequent decrees between 1970 and 1975 aimed at correcting the anomalies of Decree No. 15 of 1967,by reallocating revenue to states on a more equitable basis (Ewetan 2011, p. 99). Aboyade Technical Committee (1977) recommended a national minimum standard for national integration (22%0, equality of access to development opportunities (25%), absorptive capacity (21%), fiscal efficiency (15%) and independent revenue effort (18%). Other criteria are (57%) to Federal Government, (30%) to State Governments, (10%) to Local Governments, and (3%) to a special fund (Arowolo 2011, p. 10 ).

**THE THIRD PHASE OF REVENUE ALLOCATION, 1979-1999**

 In 1979, the federal government set up a six-man Revenue Allocation Commission under the chairmanship of Dr. P.N.C Okigbo. The Commission recommended percentages on principles: population (40%), equality(40%), social development (15%), and internal revenue effort (5%). Percentages for government: Federal(53%), States (30%), Local Governments (10%), Special Fund (7%) (Ewetan 2011, p. 101; Arowolo 2011, p.10).The 1979 Constitution had four important consequences on revenue sharing. First, the federal government ceased to monopolize the retention of fast growing revenues such as company income tax and petroleum profit tax. Second, the proportionate share of each level of government was fixed and made more certain. Third, the local governments hitherto regarded as arms of their respective state governments were recognized as an independent revenue sharing unit in the federation. Finally, the derivation criterion almost disappeared as an important principle for revenue sharing.

Owing from this review,there were lots of challenges that came with the revenue sharing formula which we would consider in the next chapter.

**CHAPTER FOUR**

**NATURE AND CHALLENGES OF FISCAL FEDERALISM**

**4.1 INTRODUCTION**

Adopting the different kinds of revenue sharing formular according to each dispensation was a welcomed development but this formula had it implication and as well accompanied by its own challenges. This chapter seeks to examine the nature of dissatisfaction and challenges of fiscal federalism in Nigeria. The chapter will further discuss the prospect to the observed problem

4.2 **NATURE AND CHALLENGES OF FISCAL FEDERALISM**

 The legal basis of fiscal federalism is derived from the past constitutional arrangements and, hence, in any true federalism the fiscal powers of all tiers of government must be related to the functions and responsibilities assigned to them by the Constitution.Constitutionally, Nigeria is a federation, but in practice, and with the assumption of power by successive military administrations, the constitution has always been suspended and the country ruled more or less like a unitary state.

 The imposition of a centralized unitary system on a federal structure under the military administration partly explains our experience of poor fiscal management and low economic performance which, over the years, had adversely inhibited the true practice of fiscal federalism.The establishment of the federal system in Nigeria was based on rounds of constitutional conferences in England prior to the grant of independence by the British government. Constitutions delineated the functions to be performed by each tier of government. The importance of these constitutional arrangements was to ensure that the statutory fiscal functions and the financial resources to be applied for effective performance of these functions by each tier of government was explicitly stated under the constitution and were to be enforced judiciously. Unfortunately, the statutory shares of state and local governments were reduced through adhoc fiscal measures such as the stabilization fund, dedication of crude petroleum for expenditure on special federal projects, Petroleum (Special) Trust Fund (PTF), upfront deduction of external debt obligations among others. The overall effect of this on the nation was that the disguised movement towards a unitary state under military administration did not advance the practice of fiscal federalism as the federal system was replaced by an ineffective unitary state.

 Under military administrations, issues of statutory functions to be performed by each level of administration and the allocation of revenue in support of effective delivery of public goods and services were bypassed. Observing this trend of substantial deviation from fiscal federalism, the Aboyade Presidential Commission on Revenue Allocation (1977) stated as follows: *The defacto federal superiority vis-à-vis the states and the huge autonomous increases in revenue accruing to the Federal Military Government resulted in arbitrary aggregation of functions on the part of the centre which normally are matters of constitutional debates and agreement. In addition to legislative measures, executive actions over a number of matters such as the universal primary education, agriculture, higher education, roads, the setting up of ministries of water resources, housing, urban development, environment, and social development youths and sports illustrate the development of this system.*

Concluding, the Aboyade Commission observed that these measures had tended to detract from true fiscal federalism in Nigeria. This trend, which was first observed in the 1970s, has continued into the 2000s, thus resulting in bloated federal budgets while the fiscal operations for many years resulted in overall deficits.The level of the budget deficits became unsustainable as the federal government assumed fiscal responsibilities which, under the federal constitution, should be performed by the lower tiers of government.The deficit gaps were met largely through credit from the Central Bank with its implications for high rate inflation and low economic growth (Okunrounmu 1999).

 Another dimension of the military rule that has hindered the practice of true federalism is the incessant and unsystematic creation of new states. The outcome of this was an excessively bloated fiscally structure and many of the states created were not financially viable as they lacked the fiscal capacity to achieve any meaningful development.Another issue is the dominance of the federal government in the sharing of national resources from the common purse popularly known as the Federation Account. The federal government has always had more than what the revenue-sharing formula stipulated. In relative terms, the share of the federal government from the common purse had declined from 70.0 per cent in 1960 to 65.0 per cent in 1963, 55.0 per cent in1980, 50.0 per cent in 1990 and 48.5 per cent in 1993, and had remained at that level until 2002 when it went up to about 52 per cent. In absolute terms, however, the average share of the federal government has remained at between 60 to 65 per cent in most cases of the years (Sarah et al, 2003).

 Fiscal federalism, from the very beginning, raised several fundamental issues. The assignment of responsibilities among federating units in Nigeria has also created problems.

 First, there was the question of how each level of government would be given adequate fiscal powers to enable it maximize its revenue and discharge its constitutional duties and still preserve its fiscal autonomy. While a reduction of fiscal independence through central administration of a particular tax may conflict with the principle of fiscal independence of states and local government the hard choice might be between more fiscal powers and less revenue, or less fiscal powers and more revenue. The introduction of value added tax (VAT) which replaces states’ sales tax and administered by the federal government is an example of one of such conflicts.

 Second, there were problems of allocating the centrally collected revenue equitably among all the levels of governments. In order to resolve this problem, various principles had been tried by different fiscal commissions and, so far, there are yet to be fully acceptable principles for sharing revenue. Very often, lack of adequate data for objective analysis had exacerbated, rather than ameliorated, the revenue sharing problem among states and local governments.

 Third, fiscal federalism had been encumbered in the past by non-jurisdictional problems such as imbalance in population, size of land area, resource endowments and levels of development. Consequently,there has been a growing gap between the requirements of individual states and local government and the revenues they are able to raise on their own. This sharp difference between the very rich and the very poor levels of government tended to influence the principles applied in favour of poorer states, and sometimes at the expense of the richer ones.

 Fourth, while the creation of states and local governments by the military government was to produce a balanced federation, the emergence and proliferation of states and local governments have continued to pose new problems for intergovernmental fiscal relations. Although, a major objective of the military government in creating states was to reduce the political powers of the regions and play down regional/ethnic politics that was already cracking the new federal structure, unfortunately, it also saw it as an opportunity to use its military might to assert the “supremacy” of federal government fiscal powers over the states.

 The present 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” (Akpan, 2011, p. 169). 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.The different formulas that have been used for revenue allocation have consistently increased the financial powers of the federal government against the other levels of government, The allocation of the most productive income-elastic taxes to the federal government have made the centre financially stronger than the states and local governments. The principal effect of this is the increasing fiscal dependence of the lower governments on federally collected revenue (both statutory and non-statutory), and their inability to meet the cost of functions assigned to them.Over-dependence on oil revenue has impacted negatively and posed serious challenges to the issues of fiscal federalism in the country. It has created the leech syndrome whereby the states have become economic appendage of the federal government and eroded the fiscal autonomy of the federating units. Thus it has created a master servant relationship in which the subnational governments are at the mercy of the federal government. As long as states and local governments continue to depend on the federal government for their economic development and survival, the wrangling and controversy surrounding the issue of revenue allocation will remain persistent and a recurrent problem in Nigerian fiscal federalism” (Arowolo, 2011, p.15).

**4.3 PROSPECTS OF THE NIGERIAN FEDERALISM**

In fashioning a way forward out of the country’s present precarious situation, it becomes important to stress that only productive political and administrative remedies, rooted in the country’s indigenous culture and experiences stand a credible chance of succeeding. The need for empowering the people in a manner that allows them to take charge of their lives and destiny becomes the viable option for engendering the principles of good governance and development, is now, far more necessary than ever. This would involve building on traditional institutions of collective decisions-making which are based on bonds of solidarity and values systems that are familiar to the people.

This ideal of civic engagement has a way of opening up the political space with avenues and opportunities for meaningful discussion and engagement. The principle of civic engagement underscores the most basic principle of democratic governance; that is sovereignty resides ultimately in the people. “It is about the right of the people to define the public good, to determine policies by which they will seek that good, and to reform or replace those institutions that no longer serve” (Adewumi, 2006,).

Similarly, the need to devolve and deconcentrate power to other component units of the Nigerian federation as prescribed the federal principle is imperative. In this regard, the local governments should be allocated more powers in view of its closeness to the people. This should necessarily be accompanied by increased resources, so as to be able to cope with responsibilities that would naturally accompany devolution. The existence of minority groups in Nigerian federation makes it imperative that mechanisms that allay minorities’ fear of domination and oppression be created, enshrined and guaranteed. A constitutionally guaranteed autonomy for sub-national units will ensure that these units operate as points of social and cultural pluralism that could serve as bridges between the people and the central government (Erich, 1994:67). Adequate opportunities for financial solvency will no doubt the capacities of these sub-national units within the country.

The two dominant and competing approaches to federalism in Nigeria have been nation building and state-building. Several futile national efforts have been wasted on nation building, inclusive of a civil war fought between 1967 and 1970. The literature on state building is divergent and diffused, with the principal problem having to do with its relationship with nation building (Scott, 2007). Why the confusion persists is confounding. Nation building is the making of a nation (attempting to make a nation) out of disparate nationalities. State building is the catalyzing of durable state structures, systems and capacities where they were either weak or nonexistent. A plausible road to nation building in Nigeria is state building. When state-building is achieved the instincts towards inter-ethnic antagonisms becomes reduced. The inter-ethnic struggle at the center to control the nationally collected volume of funds at that level for sectional usage will vanish. It has been this inter-ethnic struggle that is maintained at the center and the victorious power at that level engages in a zero-sum game under the sobriquet of central government. In the face of dreadfully dwindling oil sources of income for this same center, maintaining the ethnic scarecrow at that level is becoming overwhelming for the actors, who need to be saved from their precarious pretenses of protecting federalism in Nigeria. It is either this center is weakened in the tradition of creative destruction or the leadership pretenders lead the country to national atrophy. Watts (1998, p.128) adds that once established, federal systems are not static structures, they are dynamic, evolving entities. Consequently, the interactions of social, political, economic, and ethnic factors have shaped institutional structures and political processes, thereby producing trends toward centralization in some federal systems and decentralization in others. It is important that none of the trends remains static as this may lead to national atrophy.

Federalism in Nigeria is overdue for a new trend. The proposed new Nigerian federation needs a structure that could compel wholesome competition among the component state governments in the federation, while the central government undertakes only the leading functions. ThomOtuya (2013) suggests that the federal government functions in Nigeria need to be limited to defense, external affairs, currency regulation and communication.

**4.4 SUMMARY**

 The overview of the nature and challenges of fiscal federalism in Nigeria have been presented to show deviation from the true practice of fiscal federalism in Nigeria. The main issue is that if the three tiers of government in a federal system were to simultaneously intervene in a market economy, without coordination, and perform the role of the public sector, the situation will be chaotic. Therefore, in order to ensure sustainable growth and national development, it is necessary to understand and institutionalize the policy issues of fiscal federalism.

 More importantly, the horizontal distribution principles have remained contentious and have been described as unfair by some political zones. The emphasis on population is the most important issue,resulting from complaints that population figures were manipulated in favour of some states.Furthermore, the progressive decline of weights on derivation principle for revenue sharing has also been criticized. The basis of emphasis on derivation was to make the units maximize the yield from available tax sources as well as promote fiscal discipline among the sub national governments. The issue of landmass and terrain undermines the interest of the states with small landmass. The trend of progressive opinion is that this criterion of landmass should be excluded from the revenue allocation system. As it is now, Nigerian fiscal federalism is fraught with so many problems.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 SUMMARY**

The focus of the study is directed at a critical study on Fiscal Federalism: Theory and Dimension. The study examined why Nigeria adopted a federal system of government. it examined the nature of dissatisfaction and violent agitation arising from fiscal federalism. it explore the prospect of Nigerian federalism. In achieving this, the research adopted both descriptive and analytical methods by relying on secondary sources for data gathering. Data were obtained from secondary sources through books, journals, newspapers, magazines, reports. These data were thoroughly reviewed to explain the topic under examination.

5.2 **CONCLUSION**

The spirit of true federalism is to unite all the states and the regions in the country. And to give each state or region nationally significant independence to manage its affairs at the states and regions. Nigerian federalism centered essentially on the need to understand the basis of true federalism of power sharing and resource control. This arrangement is in line with the principles of federalism. Though the system is attributed by conflict in power-sharing and resources allocation. This has created a series of debate among the individuals in the nation. This debate is old, obsessive and questionable. The study analyzed the evolution of fiscal federalism, evolved a theoretical basis for fiscal federalism and discussed extensively on the nature and challenges of fiscal relations in Nigeria. The research concluded that fiscal responsibility and taxing powers still remain considerably centralized.The Federal Government always receives larger amount in the sharing formula and with less impact on the people. Any reliable revenue allocation and utilization system must practically reflect the Federal nature of the country.

The lopsided nature of fiscal arrangement in favour of the federal government is detrimental to fiscal operations of state and local governments and this has impacted negatively on socio-economic development of Nigeria. Greater emphasis should be laid at the grassroots where the bulk of the people live and where development appears to be virtually non-existent.A number of factors have inhibited the practice of fiscal federalism in Nigeria. These include the dominance of the federal government in revenue sharing from the Federation Account, the centralist system of fiscal relations, critical issue of over dependence on oil revenue, conflict over sharing principle, and disharmonious federal-state relations

**5.3 RECOMMENDATION**

The intractable problems arising from the widely unacceptable and constant conflicting fiscal federalism in Nigeria need urgent measures” . Accordingly, the following suggestions are proffered:

1. There is need to reverse the age long fiscal dominance by the federal government in order to re-establisha true federal system is strongly recommended. The solution is to redress the prevailing mismatch by raising the level of taxing assignment of subnational governments.
2. The is need for an efficient formula between the centre and other tiers of government is recommended.This formula should also satisfy the broad objectives of inter-regional equity and balanced national development. To this end the present vertical revenue allocation formula should be reviewed by the federal government to increase the percentage to lower governments in Nigeria to strengthen their fiscal capacity and enable them play strong role in nation building.
3. It is also imperative to embark on radical diversification of the Nigerian economy to other viable and productive sectors of the economy, such as agriculture, mining, industry and human development
4. The federal government should see to the Urgent reform in fiscal federalism in Nigeria in order to address the constitutional issue of fiscal powers among the three tiers of government to redress the prevailing fiscal mismatch at subnational levels of government as this is strongly recommended.
5. The need to diversify and strengthen the fiscal base of subnational governments is recommended. To this end, local tax administration should be improved, unproductive local taxes eliminated, and untapped tax potentials identified.
6. The need to promote fiscal discipline at all levels of government to sustain macroeconomic stability is strongly recommended. The policy should compulsorily place effective limits on governments’ deficits at all levels, consistent with the objective of macroeconomic stability to ensure sustainable national development.

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