Fiscal Federalism and National Integration in Nigeria
Ukachikara, Ucheoma O., Okoroafor, Sunday Adiele
Department of Political & Administrative Studies, Faculty of Social Sciences, University of Port Harcourt, Port Harcourt, Nigeria

Abstract
The focus of this paper is on fiscal federalism and its effects on national integration in Nigeria. The paper was aimed at explaining the nature of fiscal federalism in Nigeria and the relationship between fiscal federalism and national integration. The theoretical framework for the paper was the Public Goods Theory. The historical/descriptive analytical approach was the method of the study which relied largely on secondary sources of data collection, such as journals, textbooks, internet and newspapers. The recommendation of the paper among others is that the lasting solution to the problems confronting Nigeria’s fiscal federalism lies in the readjustment of the tax revenue sharing power of the federation in an equitable manner among the component units which currently angle in favour of the federal government. Conclusively, the paper states that a united country and people are in a better position to ably confront its crises of development, nationhood and stability if there is truly fiscal federalism. National integration is a serious and purposeful endeavour, the failure of which has grave consequences to any nation.

Key words: Federalism, Fiscal Federalism, National Integration, Fiscal Responsibility, Fiscal Decentralization.

INTRODUCTION
Most democracies both in the developed and developing countries have embraced fiscal decentralization both in federal and unitary systems of government [1]. This is irrespective of the level of development and civilization. Nations are turning to devolution of their fiscal responsibilities in order to improve the performance of their public sectors [3]. Fiscal federalism according to Adamolekun [2] can be explained as a financial system in an economy with an arrangement that involves intergovernmental fiscal relations mostly in contemporary federations.

The term ‘federalism’ in fiscal federalism appears to create confusion to many scholars because it is used to mean both ‘federal’ and ‘unitary’ political systems. It is assumed in the theory of fiscal federalism that distribution of tax and expenditure powers between different vertical levels of government takes place, though informally, in countries even with systems of ‘unitary’ form of government [4].

Federalism is “the bedrock of democratic edifice for a country of Nigeria’s size and bewildering diversities” [5]. Nigeria is deeply divided and a pluralistic society. It has many ethnic groups with diverse languages and dialects, which scholars have put at different figures [6 - 9] For example, Nigeria is one of the most ethnically diverse countries in the world with well over 250 ethno-linguistic groups, some of which are bigger than many independent states of contemporary Africa [10]. As recalled by Onwujeogwu [11]“at the beginning of the 1960s, there were over 3,000 ethnic groups (tribes) in the world, about 1,000 were represented in the geographical space called Africa and about 445 were represented in the geo-political space called Nigeria.”

In other democracies like 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, medicare, 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 [3].

Statement of the Problem
What is behind the fiscal decentralization in any country is the economic development of the various constituents of the country and the achievement of national integration. Unfortunately, in Nigeria, fifty-nine years after the lowering of the Union Jack, the country is still bedeviled by the challenge of common
national ideology and integration. Observers, in the view of Ojo [10] have maintained that Nigeria has remained a fragile and impossible union. This is predicated on lack of true federalism as practiced in advanced democracies. It is a true federal system that guarantees equity and good governance.

There is no national consciousness in Nigeria. Nationalism has lost its essence in Nigeria. Everybody first thinks of his or her immediate environment other than the country. To this effect, Oyedele [12] explains the situation thus: Attachment and allegiance to family, ethnic and cultural groups are universal phenomenon of civil societies. In Nigeria, these appear to have so undermined national consciousness and solidarity that it had in the past being difficult to replace the negative aspects of these feelings with a positive feeling of common identity, a shared community sentiment and a common sense of patriotism and nationalism. What Nigerians need, is rising above these parochial bases of allegiance to integrate on the basis of common interests for the better good of the society, which unite them against anything or forces that threaten that common good [12].

Fiscal federalism debate that has dominated the media in the last one decade, in our opinion, was two pronged with the centripetal forces and the centrifugal forces: Centripetal forces were of the opinion that the federal government should be in control of all mineral resources throughout the country; while the centrifugal forces are in support that states should control the resources that are found in their various domains. The centrifugal school of thought is of the opinion that states should contribute part of the resources accruing to them to the centre and not the state giving to them revenue from resources harnessed from their states. The argument in basic terms suggests that ownership of resources should be the major determinant of who gets what, when and how in the fiscal federalism [13]. It is on this premise that the paper discussed fiscal federalism and national integration in Nigeria.

RESEARCH QUESTIONS
1. What is the nature of Nigerian fiscal federalism?
2. In what way can fiscal federalism promote national integration?

OBJECTIVES OF THE STUDY
1. To understand the nature of Fiscal Federalism in Nigeria
2. To discuss how fiscal federalism promotes national integration.

Theoretical Understanding: Public Goods Theory

The fiscal relationships between and among the constituents of the federation can be explained in terms of four theories, namely, the theory of fiscal location 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; the theory of multi-jurisdictional community, 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 [14] and fourth the theory of public goods. This paper has adopted the theory of public goods as its framework for analysis.

The basic foundations for the public goods theory of Fiscal Federalism were laid by Kenneth Arrow, Richard Musgrave and Paul Sadweh Samuelson's two important papers (1954, 1955) on the theory of public goods. Musgrave [15] 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 “Decentralisation Theorem” [16].

Within this framework, three roles were identified for the government sector. These were the roles of government in correcting various forms of market failure, ensuring an equitable distribution of income and seeking to maintain stability in the macro-economy at full employment and stable prices [15]. Thus the government was expected to step in where the market mechanism failed due to various types of public goods characteristics. Governments and their officials were seen as the custodians of public interest who would seek to maximize social welfare based on their benevolence or the need to ensure electoral success in democracies [16].

Based on the preceding, the role of government in maximising social welfare through public goods provision came to be assigned to the lower tiers of government. The other two roles of income distribution and stabilisation were, however, regarded as suitable for the central government. From the foregoing, we can summarise the role assignment which flows from the basic theory of fiscal federalism. The central government is expected to ensure equitable distribution of income, maintain macroeconomic stability and provide public goods that are national in character. Decentralised levels of government on the other hand are expected to concentrate on the provision of local public goods with the central government providing targeted grants in cases where there are jurisdictional spill-overs associated with local public goods [17].

Each tier of government is seen as seeking to maximise the social welfare of the citizens within its jurisdiction. This multi-layered quest becomes very important where public goods exist, the consumption of which is not national in character, but localised. In such circumstances, local outputs targeted at local demands by respective local jurisdictions clearly provide higher
social welfare than the central provision. This principle, which Oates [18] has formalized into the “Decentralization Theorem” constitutes the basic foundation for what may be referred to as the first generation theory of fiscal decentralization [19]. The theory focused on situations where different levels of government provided efficient levels of output of public goods “for those goods whose special patterns of benefits were encompassed by the geographical scope of their jurisdictions”[18]. Such situations came to be known as “perfect mapping” or “fiscal equivalence” [20].

Nevertheless, it was also recognised that, given the multiplicity of local public goods with varying geographical patterns of consumption, there was hardly any level of government that could produce a perfect mapping for all public goods. Thus, it was recognised 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 resorted to situation whereby the central government is required to provide matching grants to the lower level government so that it can internalise the full benefits [17].

CONCEPTUAL CLARIFICATIONS

Federalism

Federalism is a system of government in which power is divided between a central authority and various constituent units of the country. Usually, a federation has two levels of government: One is the government for the entire country that is usually responsible for a few subjects of common national interest. The others are the governments at the level of provinces or states that look after much of the day-to-day administration of the states. Both levels of government enjoy their power independent of the other [21]. It is a decentralization of responsibilities for expenditure and revenue to different levels of government that ensures that each level makes decisions and allocates resources according to its own priorities. Therefore, two aspects are crucial for the institution and practice of federalism [22].

Fiscal Federalism

Fiscal federalism is concerned with “understanding which functions and instruments are best centralized and which are best placed in the sphere of decentralized levels of government” [18]. 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 manifested by the financial aspects of the devolution 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 [23].

Fiscal Decentralization

Fiscal decentralization refers to the public finance dimension of intergovernmental relations. It specifically addresses the reform of the system of expenditure functions and revenue source transfers from the central to sub-national governments. It is a key element of any decentralization programme. Without appropriate fiscal empowerment, the autonomy of sub-national governments cannot be substantiated and, in this way, the full potential of decentralization cannot be realized.

Fiscal decentralization involves shifting some responsibilities for expenditures and/or revenues to lower levels of government. One important factor in determining the type of fiscal decentralization is the extent to which subnational entities are given autonomy to determine the allocation of their expenditures [24]. Fiscal responsibilities in a multi-level system of government such as Nigeria are vested in both the federal and sub-national governments, which has resulted to a decentralized fiscal system or fiscal federalism. The federal government is the ultimate power in Nigerian intergovernmental relations as the constitution allocated an exclusive legislative list of powers to the federal government with a relatively smaller concurrent list of powers for the state governments, and much smaller residual list for the local governments (See 2nd schedule of the 1999 Constitution of Nigeria).

In a truly federal system, the member states have entrenched constitutional rights in decision-making powers on the allocation of revenue. But in Nigeria this is not entirely the case. For example most of the major changes in revenue allocation formula from 1967 to 1999 were done through military decrees. Even after the return to democratic rule in 1999, the revenue formula in use from July 2002 was by a Presidential Order [25].

National Integration

Maurice Duverger defined national integration as “the process of unifying a society which tends to make it harmonious, city, based upon an order its members regard as equitably harmonious” [26]. To Philip E. Jacob and Henry Tenue, it is “a relationship of community among people within the same political entity… a state of mind or disposition to be cohesive, to
act together, to be committed to mutual programmes” [27].

In the same vein, some scholars have defined it as a process. For instance, Donald G. Morrison and others explain national integration thus: A process by which members of a social System (citizen for our purpose) develop linkages and location so that the boundaries of the system persist over time and the boundaries of sub systems become less consequential in affecting behaviour. In this process, members of the social system develop an escalating sequence of contact, cooperation, consensus and community [28].

Claude Ake also implied process in his definition of an integrated political system thus: To the extent that the minimal units (individual political actors) develop in the course of political interaction a pool of commonly accepted norms regarding political behaviour patterns legitimised by these norms… [29].

National integration, otherwise termed nation-building, national unity, national cohesion, national loyalty, or the national question “involves consensus on the limits of the political community and on the nature of the political regime” [30, 31] This simply means the forging of agreement among the members of a country on the extent of unity they wish to have as well as the type of political structure and institutions they desire.

RESEARCH METHODOLOGY

This paper adopted qualitative and quantitative research methods with a combination of historical/descriptive research design. The nature of data is secondary from academic journals, articles, textbooks, reports and newspapers, internet-based and bulletins etc. In other words, data were collected largely from secondary sources through literature, desk-based research and published reports on federalism and national integration in Nigeria.

Data Presentation and Discussion of Findings

The Nature of Fiscal Federalism in Nigeria

The principles of fiscal federalism are concerned with how taxing, spending and regulatory functions are allocated among the component parts of a federation, and how intergovernmental transfers are structured among these parts (Anwar) [32]. These arrangements are of fundamental importance to the efficiency of the provision of public services. In Nigeria, the practice of fiscal federalism has been riddled with problems, not least of which is the contentious and sometimes acrimonious debate on how best equitable socio-economic development can be achieved within the context of a plural democracy.

The problem of devising an appropriate formula that is acceptable to all the regions/states emerged as soon as Nigeria accepted federalism in the early 1950’s. Since then, several fiscal commissions/committees had been appointed to work out an equitable formula for sharing revenue among them. Many principles had been introduced and applied to revenue sharing among States consequent upon the commissions and committees highlighted earlier, yet the problem of equitable revenue sharing remain unresolved. In Nigeria, certain basic principles are used for revenue allocation. They can be subsumed under three broad headings namely: (a) Derivation (b) Need, and (c) National Interest/Even Development. Others, but with less emphasis are (i) population (ii) geographical peculiarities (iii) absorptive capacity, (iv) internal revenue efforts (v) equality of States (vi) continuity (vii) fiscal efficiency (viii) national minimum standards for national integration (ix) land mass, and (x) financial comparability [33].

In 1999, the federal government established Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) as an institutional framework for fiscal decentralization. The establishment in 1999 of Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) was a response by the Federal Government to provide for all embracing and permanent revenue body in Nigeria. RMAFC is a body that reflects the Federal Character Principle in its membership composition and has enabling laws which empower the commission to act as follows [17]:

- Monitor the accruals into and disbursement of revenue from the federation account;
- Review from time to time, the revenue allocation formula and principles in operation to ensure conformity with changing realities;
- Advise the federal, state and local governments on fiscal efficiency and methods by which their revenue is to be increased;
- Determine the remuneration appropriate to political office holders; and,
- Discharge such other functions as may be conferred on the commission through the constitution or any act of the National Assembly [34].

It is pertinent to note that the increment in allocation to states has not provided the needed impetus that will usher in development and growth at the state level. The revenue increment over the years has only further created an avenue for most of the state governors to loot their treasury. While the revenue allocation has not led to any meaningful development, it is also discernible that the Federal Government is taking more than it can chew (see Table 1).
The statutory share of the federal government declined from 55% in 1980 to 50% in 1990 and 48.5% in 1993. Similarly the share of local governments increased progressively from 8% in 1980 to 15% in 1990 and 20% in 1993. The value added tax (VAT) proceeds are also shared among the three tiers of government. Initially, the Federal Government received only 20% of the VAT proceeds to cover administrative costs of collection while states and local governments received 50 and 30% respectively. In 1996, the formula was revised to 35%, 40% and 25% to the federal, states and local governments respectively. This formula was further revised to 25%, 45% and 30% in 1996, while in 1999 the ratio changed to 15, 50, and 35% to federal, states and local governments respectively. The distribution of VAT proceeds among states and local governments is based on derivation (20%, equity (50%) and population (30%) [35].

In 2001, the fiscal body made a draft proposal with this sharing formula: the Federal Government got 41.3%, state governments 31%, local governments 16% and special fund 11.7%. However, this particular proposal was nipped in the bud following the Supreme Court pronouncement on resource control in April 2002. By the year 2008, the fiscal body had a new proposal for revenue sharing table before the National Assembly. It had proposed 53.69% for the federal government. Ultimately, it is obviously based on the new proposal that Nigeria’s fiscal federalism will continue to skew in favour of the Federal Government. Inevitably, the new revenue formula proposal is testy and controversial in nature. Thus, ‘the formula is weighted to favour the Federal Government. The Federal Government has no business having more than 35% of the revenue because it has no work; that is why it spends money anyhow’ [36].

### Table 1: Brief Historical Outline of Revenue Allocation Formulas in Nigeria

<table>
<thead>
<tr>
<th>Item</th>
<th>Date</th>
<th>Federal Govt. %</th>
<th>State Govt. %</th>
<th>Local Govt. %</th>
<th>Special Funds %</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aboyade Commission</td>
<td>1977</td>
<td>57.00</td>
<td>30.00</td>
<td>10.00</td>
<td>3.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Okigbo Commission</td>
<td>1980</td>
<td>53.00</td>
<td>30.00</td>
<td>10.00</td>
<td>7.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Revenue Allocation Act</td>
<td>1981</td>
<td>55.00</td>
<td>30.50</td>
<td>10.00</td>
<td>4.50</td>
<td>100.00</td>
</tr>
<tr>
<td>Pre-Supreme Court/Legal Decrees/Law</td>
<td>Pre-April 2002</td>
<td>48.50</td>
<td>24.00</td>
<td>20.00</td>
<td>7.50</td>
<td>100.00</td>
</tr>
<tr>
<td>Pre-Supreme Court/RFMAC Proposal</td>
<td>August 2001</td>
<td>41.23</td>
<td>31.00</td>
<td>16.00</td>
<td>11.70</td>
<td>100.00</td>
</tr>
<tr>
<td>Supreme Court Ruling</td>
<td>April 2002</td>
<td></td>
<td></td>
<td></td>
<td>Unconstitutional</td>
<td></td>
</tr>
<tr>
<td>Post-Supreme Court/Executive Order No. 1</td>
<td>May 2002</td>
<td>56.00</td>
<td>24.00</td>
<td>20.00</td>
<td>0.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Post-Supreme Court/Executive Order No. 2</td>
<td>July 2002</td>
<td>54.68</td>
<td>24.72</td>
<td>20.60</td>
<td>0.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Post-Supreme Court/RFMAC</td>
<td>January 2003</td>
<td>46.63</td>
<td>33.00</td>
<td>20.37</td>
<td>0.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Arowolo,[17]

### Fig 1: Principle of Derivation, 1946 to 1999

How Fiscal Federalism promotes National Integration

In Nigeria, fiscal federalism is aimed at ensuring a balanced federation, economic development and national unity. The challenges posed by fiscal federalism in contemporary federal states are particularly cumbersome, but it would not be out of tune to use fiscal federalism as a yardstick to measure the performance of a federation. In what follows, therefore, an examination of the political and economic rationales for revenue sharing in Nigeria is undertaken. In addition, the principles of revenue allocation that have dominated the revenue-sharing system in the country are highlighted. In the final part of the paper, attention is devoted to the impact of Nigeria’s fiscal federalism on the economic development and national integration of the country.

The fiscal rules that the literature on this subject suggests should bind the various players in the intergovernmental game—if the outcome is to be the efficient and responsible provision of public services in an equitable and stable way—include such things as clear expenditure assignments, giving responsibility for determining the rates of some major revenues to...
subnational governments, and distributing transfers by a predetermined formula [5, 37, 38]. Properly designed, an intergovernmental fiscal regime set up along these lines in effect imposes a hard budget constraint on subnational governments and hence provides the appropriate structure of incentives to ensure economically efficient outcomes.

The transfer system may also provide a combined sense of national-solidarity and “place equity” through a well-designed system of central-subnational transfers. Thus conditional grants can address projects that confer benefits that are national and or regional in scope, and unconditional grants can address issues of both vertical and locational equity [39]. In addition, to ensure macroeconomic stability, subnational borrowing may initially have to be constrained by hierarchical controls, although in the longer run it should ideally become subject primarily to the discipline of the capital markets [40]. And finally, to make the whole system work, not only must the central government itself keep to the rules, but there should be an adequate institutional structure to ensure the development of sufficient local capacity, provide for periodic adjustments to meet changing circumstances, and serve as a forum for the resolution of the disputes that inevitably arise in any functioning intergovernmental system [37].

CONCLUSION

The paper examined fiscal federalism and national integration in Nigeria. In conclusion, the paper observed that a united country and people are in a better position to ably confront its crises of development, nationhood and stability if there is truly fiscal federalism. National integration is a serious and purposeful endeavour, the failure of which has grave consequences. Like Emeka Odumegwu-Ojukwu puts it, national integration is ‘active nation-building’ which means “forging out a nation out of our diverse ethnic groups.” He also contended that the failure to achieve this in respect of Nigeria is that: “Today, the result is that tribalism and ethnicity has become a potent source of friction, rather than diminish in the face of an emergent, virile and modern nation” [41].

Predicated on the analysis, it is deducible that the centralist system of fiscal relations, critical issue of over-dependence on oil revenue, conflicts over sharing principle and disharmonious federal-state relations are obstinate challenges that are threatening harmonious fiscal relations in Nigeria and the continued existence of Nigeria as a federal state. The intractable problems arising from the widely unacceptable and constant conflicting fiscal federalism in Nigeria need urgent correctible measures [17].

RECOMMENDATIONS

1. The federal government should ensure that there is cohesion among the people; which will in turn foster stability and unity among her citizens. Integration is very important in nation building, as it examines the problem of diversity and inter-ethnic rivalry and brings about peace and unity among the people.

2. Lasting solutions to problems confronting Nigerian federation lies in the readjustment of the tax revenue sharing power of the federation in an equitable manner among the component units which currently skew in the favour of the federal government.

3. Federalism, if properly practiced, will bring about economic stability in Nigeria. The idea behind the creation of federalism in Nigeria was to bring about economic development and establish an effective administration. Federalism will bring about stability in the economy and would eliminate any form of crisis which could emanate from the ethnic rivalry.

4. Federalism will address the problem of uneven distribution of budgetary allocation by the federal government by ensuring that allocation of revenues to different regions is not politicized.

5. It is also discovered that the current revenue sharing formula encourages laziness and idleness as states rely heavily on the federal allocation-a situation that makes most states, perhaps, excluding Lagos, parasitic in nature, feeding voraciously on Federation Account. States have become dearth in initiatives, lacking in vision and are development-shy. To correct this anomaly, it is recommended that the principle of derivation be adopted as it is capable of spurring the states to work harder to contribute maximally to Federation Account.

REFERENCES


