Fiscal Federalism in Nigeria: Unsettled Issues

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Nigeria obtained its independence from Britain in 1960 – and with it, a fiscal federal system that provided a large measure of autonomy to the regions. In the years since independence, Nigeria's federal structure has undergone many changes. Now there are 36 states, 774 local governments, and a separate Federal Capital Territory (FCT), Abuja, which replaced the old capital of Lagos in 1991. The oil-rich country's progression toward its current incarnation of fiscal federalism has evolved in a setting of significant economic, political, constitutional, local, and cultural developments.

The level of regional autonomy, which increased up to the time of independence in 1960, evolved to the point where the regions had their own constitutions alongside the Nigerian (Federal) Constitution. However, the military coup of 1966 totally destroyed this arrangement and replaced it with a military system of government that was the antithesis of federalism. Even now, with a democratically elected government in place at every level, certain vestiges of the unitary system still plague the country's fiscal policies and operations.

In certain federal arrangements, revenue flows from the federating units to the centre. It would seem that in Nigeria's form of federalism, the states ought to control their resources. Then each state could develop its resources to the best of its ability and contribute as appropriate to the maintenance of the centre. In fact, the opposite is the case: the centre controls the resources, including the most important one - oil. There is thus a pressing need to restructure the country's fiscal federalism based on the diverse strengths and weaknesses of the federating units.

One of the contending issues in Nigeria's fiscal federalism relates to revenue-sharing among the three orders of government. This issue is the "derivation principle," a constitutional provision that requires that the federal government return 13 percent of revenues from the natural resources of a given state back to that state. Many Nigerians want this percentage increased. Before the ascendancy of petroleum as a major foreign exchange earner in the mid-1970s, agricultural products held this distinction and the derivation principle stood at 50 per cent. Paradoxically, the major agricultural products were derived from the three power and ethnic blocks – cocoa from the West, groundnut from the North, and palm produce from the East.

Petroleum, which has since become the country's resource base, is found in the minority areas of the country that do not possess the power base. The derivation weight became a struggle that is still in dispute. The areas where petroleum is found are so under-developed and poor that the 13 percent derivation is inadequate. Therefore, the demands of the oil-producing areas centre on the neglect of the area and the belief that these regions are being victimized because they lack political muscle. For them, the revenue-allocation formula must ensure that those who harbour the country's resource base receive a fair share, one that is sufficient for sustained growth and development. **Equity and justice would require that each state control a substantial part of its resources. Therefore, many contend that in the revenue-sharing formula, more weight should be given to derivation.**

Another problem in Nigerian federal finance is how to allocate revenue between the two or more orders of government so that each government has the financial capacity to perform the functions assigned to it. In Nigeria, there is a school of thought that maintains that some functions currently assigned to the federal government should be relinquished to states. Ideally, each federating unit should develop at its own pace by harnessing its own resources towards achieving planned development. They should develop their extractive capacity and pursue their development choices and preferences based on the resources available to them. This would ease the apprehension that resources from one area of the country are being siphoned for the development of other areas. At the same time, however, all the federating units would ensure the financial viability of the centre. The country's fiscal federalism would thus be tailored more towards stimulating divergent economic growth than in pursuing welfare policies in revenue allocation.

The factors that would ensure a formula for equitable and stable revenue allocation among the three orders of government include:

- adoption of a uniform derivation principle,
- giving adequate weight to the equality of states,
- giving adequate attention to the development of the natural resource producing areas, and
- sharing of revenue based on the responsibilities of each order of government.

The assignment of expenditures and revenue powers between federating units has necessitated the proposed Fiscal Responsibility Act. This measure was enacted into law in an attempt to avert the negative implications of the large fiscal deficits that the country has been experiencing. The law provides for the monitoring of deficits at the lower orders of government. Therefore, fiscal coordination is crucial. The Fiscal Responsibility Act aims to commit all orders of government to effective, disciplined, and coordinated budgetary planning, implementation, and reporting. While all the federating units are committed to macro-economic stability, the effectiveness of the implementation of the act remains a source of concern to policy-makers.

It is important that tension regarding the country's fiscal federalism be settled through meaningful dialogue and compromise rather than generate a crisis that threatens the survival of the country. A case in point is the recent national political reform conference in which minority states staged a walkout to protest the refusal of other members of the conference to increase the percentage allocated to the derivation principle.