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Fiscal Federalism in Nigeria: the Bane of National Development

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Abstract

Nigeria's desire to develop and practice a true fiscal federalism is quite remarkable. This paper attempts a review of some prominent studies on fiscal federalism in Nigeria. In doing this, the paper adopts a historical descriptive approach to x-ray fiscal federalism and its associated changes as it was (and is currently) practiced in Nigeria before and after independence. The paper went further to show how Nigeria's current operation of fiscal federalism has robbed off negatively on the country's national development. In the light of this, the study recommended, among other things, that there should be co-ordination of intergovernmental fiscal activities that would ensure that public spending at both state and local levels is in reality related to revenue generation efforts at the state and local levels. Also, the existing institutions (Federation Account Allocation Committee and Revenue Mobilization Allocation and Fiscal Commission) should be strengthened and repositioned in terms of monitoring all allocations to the states and local governments. These institutions should not only be primarily concerned with determining what to be shared and the formula for sharing in the Federation Account, but should also ensure that such transfers are tied to projects or certain performance targets.

Keywords:
Fiscal, Federalism, Revenue, Expenditure

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Background to the Study

The sensitivity generated by fiscal federalism in Nigeria has witnessed an increasing discourse for a long time even before independence. This discourse is dominated by both professionals and non-professionals in the discipline of Economics, Finance and Public Administration who have been able to document a lot about fiscal federalism. Unfortunately, it is the non-professionals who say much virtually without careful and factual analysis of the Nigerian situation. Their contribution lies in rejecting fiscal federalism in its entirety, no matter the circumstance. A considerable percentage of professionals bearing in mind the failure in practice of Nigeria's fiscal federalism seem to agree with the views of the non-professionals. For instance, Effiom and Udah (2014) asserted that the country prides itself as being a federation but deficit in the practice of fiscal federalism. According to Effiom and Udah (2014), an ideal fiscal mechanism must (a) be conducive to rational and equitable allocation of the country's resources among the different tiers of government and groups (b) minimize intergovernmental and intergroup tension, and (c) promote national unity. All these are brazenly in short supply in the current fiscal arrangements. Fiscal federalism cannot be divorced from a true federal state as it is a fundamental and integral part of a true federal state. It is concerned with how nations that have more than one tier of government organize itself for the purpose of collecting revenues that are needed to finance public expenditure.

These professionals usually point to the unsatisfactory economic indices of income inequality, poverty and unemployment (to mention but a few) as being the shortcomings of poor operation of fiscal federalism in Nigeria. This has led to further search for a more efficient way of operating fiscal federalism. Nigeria operates a fiscal federalism that takes care of the needs of the federating units. Today, federations are characterized by extensive intergovernmental relations in which federal, states, and local government work together, seeking to identify policies on which all participants can agree. This can only be true if there is no financial subordination on the part of any of the levels of government. It means that neither the federal nor state or the local government in a true federation should be dependent on each other in performing the statutory duties and functions assigned to it by the constitution.

The questions which readily come to mind are: What is fiscal federalism? Could Nigeria's economic failure be partly traced to (i) inadequate articulation and execution of fiscal federalism or (ii) surprise changes in the planning variables of the economy brought about by forces exogenous to the Nigerian economy? Indeed, several factors would appear to contribute to Nigeria's economic underdevelopment. Therefore, it would be incorrect to trace the underdevelopment to a single factor. Although there is widespread agreement that Nigeria's fiscal federalism is poorly executed, there seem to be no consensus regarding the nature of fiscal adjustment that is desired by the federating units or sub-national governments.

It is worth noting that this study attempts a review of key papers that serve as canon examples in the literature on Nigeria's fiscal federalism. In doing this, the study reviews and assesses the practice of fiscal federalism in Nigeria. In other words, the experiences of Nigeria's fiscal federalism and how it has affected the process of national development would be x-rayed. This is necessary in order to enable the country review its fiscal activities so as to ensure fiscal discipline and transparency especially in the course of national development. In carrying out this research, the study employs historical-descriptive approach for a comprehensive appraisal of the Nigerian situation. For this assessment to be properly done, the rest of the paper is organized into eight sections. Section one is the introduction while section two looks at objectives and principles of fiscal federalism. Section three examines theoretical and empirical issues of fiscal federalism. Section four examines revenue and section five looks at expenditure trends in Nigeria. Section six explains the bane of national development with specific reference to fiscal federalism in Nigeria. Section seven suggests agenda for positive change and section eight concludes the paper.

Objectives and Principles of Fiscal Federalism

The ability of every tier of government to assume and discharge its responsibilities depends on the balance between decentralization of revenues and decentralization of government spending, the scale of transfers of revenue between levels of government, the conditions attached to those transfers, the differences in the respective capacity of the states and local governments to provide comparable public services at comparable levels of taxation and tax collection arrangements within the country. These are the basic objectives of fiscal federalism. (Aigbepue and Ainabor 2011).

Undoubtedly, federalism assumes a system of government that is devoid of rivalry, but in which power is shared equitably among the federating units. The government under such a system usually consists of at least two orders: a national or federal government and the separate governments of the constituents units, or states, as in the case of the Federal Republic of Nigeria. Every level of government has defined limits of autonomy and receives a share of financial resources tailored to their basic requirements as enshrined in the constitutional legislative list. The case in Nigeria is obviously that of dependence of the states and local governments on the central/federal government. The federalism practiced in Nigeria is therefore lopsided, making it a case of political federalism devoid of fiscal federalism/independence. This section highlights the objectives of fiscal federalism in Nigeria as well as identifies the principles that should serve as a guide in the practice of fiscal federalism in Nigeria. Basically, the objectives of fiscal federalism include but not limited to:

I) Ensure that the micro-economic management policies of the Central government are not undermined or compromised

ii) Give expenditure discretion to sub-national government in appropriate areas in order to increase the efficiency of public spending and improving the accountability of sub-national officials to their constituents in the provision of sub-national services

iii) Incorporate intergovernmental transfers that are administratively simple, transparent and based on objective, stable non-negotiable criteria

iv) Minimize administrative cost and provide equalization payments to offset differences in fiscal capacity among states and among local governments so as to ensure that poorer sub-national governments can offer sufficient and satisfactory public services

v) Be consistent with national agreed income distribution goal

vi) Support the emergence of a governmental role that is consistent with market-oriented reforms (Litvach and Wallich, 1993, Yunusa, 2010).

The incorporation of these objectives in the practice of true fiscal federalism is difficult to stick to simultaneously given that they are mutually consistent. But all the same, these objectives have elements of efficiency, autonomy, revenue adequacy and equity.

However, Ajibola (2005) and Brown and Jackson (1990) have outlined the principles that should guide the practice of fiscal federalism which includes:

1) The principle of diversity. This has become necessary in order to accommodate diverse ethnic groups with diverse public goods and services.
2) The principle of centralized stabilization. This principle demands that the federal government be positioned to efficiently use fiscal instruments to achieve both micro and macro stabilization.
3) The principle of derivation. This requires that the federating units should exercise some control over some of their preferences with their resources.
4) The principle of Fiscal equalization. There should be some degree of fiscal equalization between the various levels of government in order to ensure the provision of a minimum level of public goods and services. This will assist in meeting the overall marginal equilibrium.
5) The efficiency principle. This is in two folds, firstly, efficiency in the allocation of resources without making anybody worse off. Secondly, efficiency in ensuring that each level of government optimizes its internal revenue earning capacity at minimum tax effort with optional distortions.
6) The principle of minimum provision of essential public goods and services. This requires that the federal government should ensure that each citizen, no matter where they reside, be provided with a minimum level of essential public goods and services such as healthcare, education and other welfare needs.

These principles as outlined above are not exhaustive. It should be noted that these principles should be applied with caution as there is always need for trade-off. Whatever the situation, the nature of trade-offs should be able to ensure national development in all its ramifications.

Federalism and Fiscal Federalism: Empirical and Theoretical Issues

The changing structure of the Nigerian Federation from 1914 till date had provided a fertile ground for fiscal adjustments of the past and present governments. At independence in 1960, the country had three regional structures which eventually became a four-state structure in 1964. Arising from further developments in Nigeria's fiscal federalism, Nigeria became a 12 states federation in 1967. Further developments lead to the creation of 19 states in 1976, 21 states in 1987, 30 in 1991 (including FCT) and finally 36 states in 1996 respectively (Mordi, Englama and Adebusuyi, 2010). These changes in the federal arrangement also brought about either additional centralization or decentralization of governmental functions and responsibilities to the federating units (states).These in turn gave rise to the suitability or practicability of Fiscal Federalism. Adedeji, (1998) emphasized that for democratic or fiscal Federalism to be sustainable in Nigeria; it must be anchored on five pillars of a modern state. These pillars are justice, human rights, people's sovereignty, empowerment and accountability.

Fiscal federalism as mostly used simply refers to the division of taxation and expenditure functions among the tiers of governments in a federation and sustained by fiscal decentralization among the federating units (Alade, Ebajemito, Rapu and Tule, 2003). This implies that fiscal federalism allows the federating units at each level of government to take decisions and also allocate resources according to the priorities set in its area of jurisdiction. Unlike the unitary system of government in which such functions are largely performed by the central government, fiscal federalism recognizes differences and preferences and allows for flexibility in the provision of goods and services. Figure 1 describes the desire for unity and communality on certain issues with a desire for diversity and autonomy on others. The decision of whether federalism is desirable for a nation, and if so, the nature and form of the federal institutions and the principles on which they should be built depends chiefly on the common interest and identities on the one hand, and divergent interest and identities on the other (IDEA, 2003).

Figure 1: Federalism as Unity in Diversity

Separate States	Unitary States	Federation
▲▲ ▲▲	□	Δ Δ Δ Δ Δ Δ
Diversity and Autonomy without Unity and Communality	**Unity and Communality without Diversity and Autonomy**	**Diversity and Autonomy within Unity and Communality**

Source: Adopted and Adapted from IDEA, 2003.

The central idea in fiscal federalism is that the various tiers of government relate financially in its concern for the execution of those responsibilities assigned to them by the supreme law of the land. These relationships influence the efficacy of intergovernmental fiscal relation between the various tiers of government involved (Yunusa, 2010). According to Ayoade (1980), there are six sets of relationships which include; National-State-Local, National-State, National-Local, State-Local, Inter States and inter local. The first four sets of relationship represent a vertical fiscal relationship while the later two represent horizontal fiscal relationship. These relationships provide the basis for fiscal decentralization. Though, the dynamics of Federal-State-Local governments' interactions and the outcomes of the emerging fiscal game depend much on the history and political economy of the country. By and large, the essence of fiscal decentralization is not unconnected with the enhancement of national development. The emerging literature on the subject matter of governance seems to have largely departed from the broad principles and practices of fiscal federalism. This is because it (the federal system) is perceived as having high potentials for macroeconomic instability.

In Nigeria, Yunusa (2010) observed that fiscal decentralization has been marred by a web of fiscal contradiction with a consequent corresponding public outcry by the federating units. Yunusa's study revealed among other findings that there is low revenue decentralization, low expenditure decentralization, unfair revenue sharing formula, vertical fiscal imbalance, low autonomy and high fiscal dependence of sub-national governments. Ultimately, high fiscal dependence and imbalance hinders the quest of sub-national governments to fight unemployment, poverty and income inequality as critical indicators of national development. On the basis of these findings, the paper recommended a realignment of revenue powers and greater sub-national governments autonomy.

In the same vein, Iwayemi (2013) opined that the revenue sharing formula to assist sub-national governments had adverse effects which include inefficient fiscal and economic outcomes, significant rent seeking and corruption and weak or lack of political accountability at the different tiers of government. The study further stated that the poor and unattractive fiscal performance specifically at the sub-national levels is partly responsible for the inefficiencies in the transfer design embodied in the current revenue sharing framework.

Theoretically, the federal system is seen as possessing high potentials for economic instability. Oates (1972) had stated that even though fiscal federalism has much to offer, it is a thorny enterprise. The widespread inference which seems to emanate from these analyses is that a decentralized political structure is not compatible with fiscal prudence (Tanzi, 1996). Looking at the three paramount issues involved in government contract with its citizens, viz; allocation, stabilization and redistribution, it is theoretically accepted that the sub-national governments be assigned the allocative functions while the functions of redistribution and stabilization be assigned to the national government. Stabilization policies are considered to be inappropriate for sub-national governments due to fact that the management of such functions at the sub-national level may entail higher local costs than at the federal or national level. Thus, stabilization policies are rightly the function of national governments (Oates, 1972, Musgrave, 1983). Though these views put forward by the above mentioned scholars have been challenged/criticized by many writers such as Dafflon, (1977), Walsh, (1992), they still command a reasonable following.

Trends in Revenue allocation in Nigeria

One of the most debatable and dynamic issue in Nigeria's fiscal federalism is the revenue sharing arrangement. There had been several commissions set up by the federal government on an ad-hoc basis to determine revenue sharing between the federal government and the federating units right from 1951 till 1980. These commissions are the Hicks-Phillipson commission (1951), the Chick commission (1953), the Raisman commission (1957), the Binns commission (1964), the Dina commission (1968), the Aboyade commission (1977/78), the Okigbo commission (1980) and finally, the permanent commission known as the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) which was established in 1989 (Lukpata,2013). The revenue sharing formula in spite of all these commissions had always been in favour of the Federal Government, compared with its expenditure requirements. The average percentage allocation to the three tiers of government over the years had been 48% to 55%, 25% to 35% and 10% to 20% for Federal, State and Local governments respectively.

The assignment of legislative and executive responsibilities to the various tiers of government as enshrined in the 1999 constitution further consolidated the federal government's overbearing influence in financial relations between the federal government and the other sub-national governments. The Second Schedule to Section 4 of the 1999 Federal

Constitution, like all other previous constitutions indicates categorically the assignment of legislative and executive powers between the three tiers of government in Nigeria (that is Federal, State and Local governments). This is done by creating three legislative lists, namely, the exclusive legislative list, the concurrent list and the residual list. The items on the exclusive legislative list are meant only for the federal government to legislate on it. The concurrent list allows both the federal and states governments to legislate. The third list, which is the residual, allows the state and local governments to legislate on.

The residual list contains all items not clearly treated in the exclusive and concurrent legislative list. There is also the provision that the federal law supersedes any state or local government law in the event of any inconsistency of any sub-national law with the provision of a federal law. Table 1 indicates the items/responsibilities as clearly assigned in the constitution with respect to the three tiers of government.

Table 1: Assignment of Responsibilities in the 1999 Federal Constitution

Exclusive legislative list (Federal Government).	**Concurrent legislative list (Fed. & State Governments).**	**Residual legislative list (States &Local Govts).**
➢ Accounts of the Federation ➢ Arms, Ammunition, Defence and National Security ➢ Aviation, Railways, Federal Trunk Roads and Maritime Matters ➢ Immigration and internal affairs ➢ Financial laws and Currency Issue ➢ Census, National Honour & Citizenship ➢ Foreign affairs and International Treaties ➢ States Creation and Regulation of Political parties, National and States Elections ➢ Mining and National Parks ➢ Labour and Public Service of the Federation ➢ Patents and Trade Marks ➢ Legal proceedings between governments In the Federation ➢ Establishment of Federal Agencies	➢ Allocation of revenue ➢ Antiquities and Monuments ➢ Archives ➢ Collection of taxes ➢ Electoral law ➢ Electric power ➢ Industrial, commercial or agricultural development ➢ Scientific and technological Research Statistics and Topographical surveys ➢ University, Technological and Post-Primary Education	➢ Sewage Disposal ➢ Environmental Sanitation ➢ Maintenance of Feeder Earth Roads ➢ Primary Education ➢ Payment of Salaries ➢ Market Stalls ➢ Rural Health ➢ Crafts and Small Scale Industries.

Exclusive legislative list (Federal Government).	Concurrent legislative list (Fed. & State Governments).	Residual legislative list (States &Local Govts).
➢ Telecommunications ➢ Nuclear Energy, Stamp duties, annulment And dissolution of marriages ➢ Public debt of the federation ➢ Weight and Measures, ➢ International trade/commerce		

Source: 1999 Federal Constitution and Alade, Egbajemito, Rapu and Tule, (2003)

The assignment of these responsibilities as shown in table 1 has a serious bearing on tax (revenue) jurisdiction of the three tiers of government. Between 1954 -1966 and 1966 -1999, fiscal arrangement in Nigeria had changed at different periods essentially as determined by the federal structure in operation. Alade, Egbajemito, Rapu and Tule (2003) observed that during the intervention of the Military in government, the revenue potentials of the lower tiers of government were systematically and completely eroded. Some of the measures that eroded these revenue potentials included the promulgation of decree no. 9 of 1971, transferring mining and royalties there-from to the Federal government, the centralization of marketing boards and their eventual dissolution, the collection and retention of company income tax and excise duties, the introduction of uniform rates on personal income tax thereby denying states the latitude to vary those rates, the introduction of value added tax (VAT) in 1994 to replace the sales tax that was previously in the jurisdiction of the states. A careful analysis of table 2 indicates Nigeria's tax jurisdiction as enshrined in the 1999 constitution.

Table 2: Tax Jurisdiction in Nigeria (1999-2013)

Tax	Legal Jurisdiction	Collection	Retention
Import Duties	Federal	Federal	Federation Account
Excise Duties	Federal	Federal	Federation Account
Export Duties	Federal	Federal	Federation Account
Mining Rents and Royalties	Federal	Federal	Federation Account
Petroleum Profit Tax	Federal	Federal	Federation Account
Capital Gains Tax	Federal	State	State
Personal Income Tax	Federal	State	State
Personal Income Tax: Armed And Police Forces, External Affairs Officers, non-residents and residents of FCT	Federal	Federal	Federal
Value Added Tax (Sales tax before 1994)	Federal	Federal/State	Federal/State
Company Income Tax	Federal	Federal	Federation Account
Stamp Duties	Federal	State	State
Gift Tax	Federal	State	State
Property Tax and Ratings	State	State/Local	State/Local
Licenses and Fees	Local	Local	Local
Motor Park Dues	Local	Local	Local
Motor Vehicle	State	Local	Local
Capital Transfer Tax	Federal	State	State
Pools Betting and other Betting Taxes	State	State	State
Entertainment Tax	State	State	State
Land Registration and Survey Fees	State	State	State
Market and Trading License and Fees	State	Local	Local

Source: Salami (2011)

From table 2, it is obvious that the Federal government of Nigeria has near absolute control of revenue sources. As a matter of emphasis, it will not be out of place to state that between 1954 and 2015, the fiscal federalism in operation had made the sub-national governments to be mere administrative units of the federal government. This is strengthened by the assignment of functions with high rates of return (power supply, port management etc) to the Federal government while functions that are with low rates of return are assigned to the states and local governments (Alade, Egbajemito, Rapu and Tule, 2003, Lukpata, 2013)

Expenditure Trends in Nigeria

Just like the federal government, the public expenditure profile by other sub-national governments is highly oil dependent given that their expenditures are determined by the revenues they get from the Federation account. Ariyo (1993) pointed out that the fiscal activities of the three tiers of government in Nigeria are heavily dependent on the price and volume of production of oil and gas which are in turn dependent on world energy market developments. This is why there is always fiscal disequilibria (in the form of sharp fiscal contraction or expansion) whenever the anticipated fiscal projections by the three tiers of government turn out to be inaccurate.

In the same vein, the pattern of public expenditure right from 1970 till date (with the exception of few years) by the three tiers of government is usually skewed in favour of recurrent expenditure (particularly debt service payments). The consequence of this fiscal pattern is in two folds. Firstly, the neglect of capital expenditure is usually seen as the reason for the rapid decline in the country's social and economic infrastructure. Two, the increasing recurrent expenditure on a yearly basis has the capacity of crowding-out public investment, thus contributing significantly to poor national development. Table 3 illustrates the fact that expenditure pattern in Nigeria has been in favor of recurrent items to the detriment of capital projects.

Table 3: Federal Government Expenditure trend, 1990-2015

Year	Average Capital Expenditure (in Billions of Naira)	Average Recurrent Expenditure (in Billions of Naira)
1990-1999	162.834	139.263
2000-2009	553.73	1237.857
2010-2015	897.83	3370.5

Source: Authors' computation based on data from CBN's statistical Bulletin (2016).

Assessment of table 3 indicates that the federal expenditure trend in Nigeria is skewed towards recurrent expenditure. Apart from the 10 year period of 1990 to 1999 where capital expenditure was slightly higher than recurrent expenditure, the reverse has been the case from 2000 to 2015. In fact, recurrent expenditure between 2000 and 2009 was more than twice the size of capital expenditure, while it was more than three times the size of capital expenditure in the six year period of 2010 and 2015.

From economic theory, it is capital expenditure that drives economic development, therefore, it is not surprising that Nigeria is still underdeveloped, given that the expenditure pattern favors recurrent over capital projects. The expenditure pattern of the federating units (states and local governments) also favors recurrent aspects over capital projects, as shown in the table 4. The lopsidedness of the Nigerian model of fiscal federalism can also be seen from the

Table 4: States' Government Expenditure Trend, 2011-2015

Year	Cumulative Capital Expenditure (in Billions of Naira)	Cumulative Recurrent Expenditure (in Billions of Naira)
2011	1375.20	2055.70
2012	1965.30	1664.40
2013	1890.40	1948.43
2014	1862.52	2120.48
2015	1201.82	2267.34

Source: Authors' computation based on data from CBN's Statistical Bulletin (2016)

Magnitude of expenditure. It is noted that the cumulative capital and recurrent expenditure of the 36 states and the FCT is far less than that of the federal government. This flows from the fact that expenditure is based on the share of allocation from the federation account. The present allocation formula gives the federal government the lion share of 52.68%, the 36 states share 26.70% while 774 local governments share 20.60% among themselves. For as long as the allocation/sharing formula skews in favor of the federal government, the autonomy of the federating units will continue to be eroded. The burden of development will continue to be shouldered almost completely by the federal government. For a more inclusive development to take place there is need for the fiscal aspect of the Nigeria's federalism to be revisited.

Fiscal Federalism: The Bane of National Development

Several issues have been identified and analyzed indirectly with the operation of Nigeria's fiscal federalism as being the bane of national development. These issues have long been documented and re-echoed in the received literature by Danjuma, (1994), Ekpo, (1994), Adesina, (1998), Okoh and Egbon (1999), Ahmad and Singh (2003), Salami (20011) and Iwayemi (2013) to mention but a few. In this section, the study intends to carefully chronicle and itemize few of these issues arising from the improper implementation of fiscal federalism in Nigeria.

Firstly, there is high degree of fiscal imbalance which is manifest in the lack of fiscal correspondence between revenue generation and expenditure at the sub-national governments. Iwayemi (2013) pointed out that this fiscal imbalance creates common pool problem with its characteristic free rider behavior for most of the three tiers of government. Internally generated revenue is not only weak but is also not an issue as the sub-national governments is hopeful of fiscal transfer from the Federation account. The fiscal transfer is seen as being politically less costly than the internally generated revenue. After all, public spending and by extension revenue from federation account at both state and local levels is not in reality based on local tax efforts. The overall consequence of this is that economic productivity at the sub-national levels is grossly discouraged. This endangers development at the sub-national levels of governments.

Secondly, there is the issue of lack of equity and fairness as well as fiscal inefficiency. This is common when revenue transfers from the Federation account to the sub-national governments is not tied to any projects or programmes or certain performance targets. Consequently, the governments at the lower levels see the allocations as “free money” from the common purse which must be spent without considering its negative fiscal implications on the economy. This reckless spending has induced the sub-national governments to borrow against expected future revenue from Federation account. This scenario has in reality increased the debt burden of most states in Nigeria with the attendant consequences of low savings, low consumption, low investment and low output growth in these states and Nigeria in general. In all, there is lack of fiscal prudence which ultimately impedes national development in all its ramifications. This is shown in table 5.

Table 5: States and Federal Government's External Debt Stock as at 31st December, 2014

S/N	States and FGN	Multilateral ($)	Bilateral (AFD) ($)	Bilateral (China Exim Bank & Eurobond) ($)	Total
1	Abia	33,791,420.92	----------	-----------	33,791,420.92
2	Adamawa	40,275,205.57	6,500,000.00		46,775,205.57
3	Akwa Ibom	58,886,640.86			58,886,640.86
4	Anambra	45,154,626.04			45,154,626.04
5	Bauchi	87,572,428.68			87,572,428.68
6	Bayelsa	34,832,195.13			34,832,195.13
7	Benue	33,074,189.47			33,074,189.47
8	Bornu	23,067,549.16			23,067,549.16
9	Cross River	131,469,661.94	10,000,000.00		141,469,661.94
10	Delta	24,233639.67			24,233639.67
11	Ebonyi	45,410518.38			45,410518.38
12	Edo	123,128,295.53			123,128,295.53
13	Ekiti	46,452,932.15			46,452,932.15
14	Enugu	62,428,599.36	6,500,000.00		68,928,599.36
15	Gombe	39,545,598.76			39,545,598.76
16	Imo	52,949,585.74			52,949,585.74
17	Jigawa	35,717,805.70			35,717,805.70
18	Kaduna	234,416,052.15			234,416,052.15
19	Kano	59,796,937.03			59,796,937.03
20	Katsina	78,925,362.41			78,925,362.41
21	Kebbi	43,786,053.64			43,786,053.64
22	Kogi	35,787,836.35			35,787,836.35
23	Kwara	52,722,198.82			52,722,198.82
24	Lagos	1,087,209,248.65	82,503,600.00		1,169,712,848.65
25	Nasarawa	49,942,696.58			49,942,696.58
26	Niger	38,250,438.25	6,500,000.00		44,750,438.25
27	Ogun	109,154,553.08			109,154,553.08
28	Ondo	52,688,524.40			52,688,524.40
29	Osun	67,103,294.39	6,950,000.00		74,053,294.39
30	Oyo	72,350,590.32			72,350,590.32
31	Plateau	30,947,579.75			30,947,579.75
32	Rivers	44,725,095.71			44,725,095.71
33	Sokoto	44,864,819.46			44,864,819.46
34	Taraba	22,780,063.89			22,780,063.89
35	Yobe	31,237,619.25			31,237,619.25
36	Zamfara	35,547,562.30			35,547,562.30
37	FCT	36,636,548.58			36,636,548.58
	Sub-Total	3,146,863,962.07	118,953,600.00		3,265,817,562.07
38	FGN	3,652,500,496.49		2,793,131,051.44	6,445,631,547.93
	Total	6,799,364,458.56	118,953,600.00	2,793,131,051.44	9,711,449,110.00

Source: Debt Management Office, 2014.

Table 5 illustrates the fact that reckless spending by states due to their reliance on allocation from the federation account has increased their indebtedness. The debt profile indicated on the table is focused only on external debts. When domestic indebtedness is included, then the debt magnitude would be alarming. With the exception of Lagos State, none of the States with high foreign debt can be said to be economically viable. Cross River State has the third highest foreign debt profile, at the same time, and ironically, it receives one of the lowest allocations from the federation account. If states are fiscally autonomous, the frivolous spending that has led to the huge foreign debt overhang/burden would not be embarked on, knowing that there is no "free money" from federation account.

Thirdly, the unclear fiscal responsibility of certain key functions as a result of many concurrent obligations in areas such as education, health agriculture and social welfare assistance has created real challenges with no tier of government taking full fiscal responsibility for such functions. This has in reality led to lack of co-operation and co-ordination in economic management among the three tiers of government in Nigeria with the adverse effect on growth and development.

Finally, there is absolute lack of fiscal autonomy for the Local government councils in Nigeria. The states regard the local government councils as mere appendages even when the principal officers or chief executive officers of the lower tiers of government are elected. There is the imposition of a unitary-like command structure of the state governments on fiscal federalism in Nigeria which adversely affects national development. This is currently glaring as there is the persistent refusal of the state governments to honour their own obligation as it concerns the expected allocation of 10 per cent of their total internally generated revenue to the councils. This act makes the councils to almost always run short of funds that are necessary to provide social infrastructure at the grass root level in order to drive the development process.

Agenda for Positive Change

The most debatable issue in Nigeria's fiscal Federalism is on revenue allocation to the three tiers of government from the Federation Account. It is debatable because some tiers of government are dissatisfied with the sharing formula and as such they feel marginalized. This marginalization in revenue sharing which has left most tiers of government short of funds is manifest in the inability of sub-national governments to finance capital projects at the sub-national levels. Therefore, any suggestion to improve fiscal federalism in Nigeria must be tied to the key issues surrounding revenue generation, sharing and expenditure. It is in the light of this that the following suggestions are made, though they are not exhaustive.

The Fiscal Responsibility act which was meant to entrench fiscal discipline in government operations must be enforced and implemented to the letter. This act seeks to improve intergovernmental fiscal coordination, specifically, improve budgetary process and ensure transparency in the Management of public finances among others. This coordination of intergovernmental fiscal activities would ensure that public spending at both state and local levels is in reality related to revenue generation efforts at the state and local levels.

The existing institutions (Federation Account Allocation Committee and Revenue Mobilization Allocation and Fiscal Commission) should be strengthened and repositioned in terms of monitoring all allocations to the states and local governments. These institutions should not only be primarily concerned with determining what to be shared and the formula for sharing in the Federation Account, but should also ensure that such transfers are tied to projects or certain performance targets. This will make the lower levels of government to be more fiscally and financially responsible thereby eliminating fiscal inefficiency in Nigeria's fiscal federalism.

There is also the need for local government fiscal autonomy. The states should not only regard the local government councils as independent fiscal units but they should also fulfill all their fiscal obligations to the local governments. In fact, there should be complete fiscal decentralization (as against the current fiscal centralization) right from the first tier of government to the third tier of government. This is capable of financially empowering the local councils to carry out programmes that will have long lasting development impact on the citizens at the grass root.

Conclusion and Recommendation

From the foregone analysis, it is obvious that nation states are faced with three options: (a) to remain as separate states which entails diversity and autonomy devoid of unity; (b) to become unitary states which implies having unity and communality with no diversity and autonomy; (c) forming federations in which there would be diversity and autonomy within unity and communality. Most nation states have opted for federation. However, few are actually practicing true federalism in which there is fiscal autonomy for the federating units.

With the exception of the United States, Germany, The United Kingdom, Canada, Australia, and a few others that grant fiscal autonomy to the federating units, most federations exist only in context, not in practice. Nigeria is a case in point. Federalism without fiscal federalism is an aberration. Federating units have responsibilities entrusted to them by the article of union (constitution).

For federating units to discharge their responsibilities effectively and efficiently, there is need for financial independence. Because of the absence of this essential ingredient (financial autonomy), Nigeria's federalism has actually been a bane of national development rather than a catalyst. This is seen in the expenditure pattern and trend as presented in tables 3 and 4. The availability of 'easy money' from the federation account on a monthly basis has made leaders at the lower tiers of government to be oblivious of the fact that expenditure can either instigate or mar growth. The huge debt profile of the states as presented in table 5 is a pointer to this fact.

Having established the fact that federalism is the best form of government, it is pertinent for Nigeria's federalism to be redefined with particular emphasis on the fiscal component. Contextually, there is fiscal autonomy. There should be enforcement of this fiscal autonomy so that federating units can generate resources needed, and same spent on priority areas to kick start inclusive growth and all round development.

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