World Applied Sciences Journal 36 (3): 476-486, 2018
ISSN 1818-4952

DOI: 10.5829/idosi.wasj.2018.476.486

Intergovernmental Relations and Fiscal Imbalance in Nigeria: The Bane of Physical and Political Development

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Abstract: This paper sought to investigate intergovernmental relations and fiscal imbalance in Nigeria as bane of physical and political development. Whereas it may be acclaimed that Nigeria's intergovernmental relation has emanated from historical, economic, political, geographical, cultural and social dynamics; in all of these, the existing fiscal arrangements have remained as controversial an issue as it is problematic. Nigeria has not operated as a true federation since it adopted a federal constitution till date. Fiscal responsibility and taxing powers still remain considerably centralized, while federating units experience fiscal mismatch between spending and taxing powers. The true practice of fiscal federalism in Nigeria has been inhibited by several factors which among others include, the dominance of the federal government in the sharing of national financial resources from the Federation Account, the imposition of the command structure of the military on fiscal federalism, the pattern of assignment of responsibilities by the constitution among federating units and over-reliance on the revenue from the Federation Account. This paper recognizes that fiscal federalism is unarguably a potent economic strategy that can be deployed to maximize provision of public services, advance political development as well promote macroeconomic stability. However, central to the success of fiscal decentralization, is clarity in revenue and expenditure authority and responsibilities. The urgent reform that is required is the need for government to redress the prevailing fiscal mismatch at sub national government levels through appropriate policies to increase tax revenues to sub national governments as well as reforms of expenditure responsibilities to enhance their efficiency in the provision of public services.

Key words: Federalism · Intergovernmental Relations · Fiscal Federalism · Fiscal Imbalance · Nigeria · Physical and Political Development

INTRODUCTION

According to Ojo [1], the perennial problems which has not only defied all past attempts at permanent solution, but also has a tendency for evoking high emotions on the part of all concerned (each time it is brought forth for discussion or analysis) is the issue of equitable revenue allocation in Nigeria. It is an issue which has been politicized by successive administrations in Nigeria both military and civilian regimes. Indeed, in virtually all federations in which the constitution shares power between the central and regional or state governments and, for each level to be "within a sphere co-ordinate and independent" [2: 93] enough resources need be allocated to each tier to justify their existence. The nature and conditions of the financial relations in federal systems particularly one that is transfixed on a multi-ethnic society like Nigeria is crucial to her continuing existence [3: 7] for fiscal matters transcend the purview of economics alone. They have in most cases in Nigeria assumed political, religious and social dimensions [4: 234]. In the words of James O'Connor, allotments of money (and resources) must reflect "social and economic conflicts between classes and groups" [5:276]. It is not surprising therefore, that the basis of federal statutory revenue allocation has always been one of the "most contentious and destabilizing factors in the Nigerian polity". No doubt, 'public finance is one of those subjects which lie on the borderline between economics and politics' (Dalton, 1929 in [6:234].

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It needs be emphasized that whatever may be the origin of a federation, whether aggregation or devolution, its establishment at once raises three salient problems: "how to allocate functions rationally; how to allocate taxing powers; and how to share revenue between the governments of that federation" [7:389 in 8:246].

The hitch however in Nigerian context is how best to resolve these complex revenue allocation problems that will achieve the aforementioned objectives. Thus, on several occasions, successive governments have been revising revenue allocation formula till date. So far, an acceptable formula is yet to be arrived at; in view of the agitations here and there for an acceptable formula. Meanwhile, it is imperative to note that Nigeria's revenue sharing debates have revolved basically around three issues namely:

- the relative proportions of federally collected revenues in the federation account that should be assigned to the centre, the states, the localities and the so-called 'Special Funds' (vertical revenue sharing),
- the appropriate formulae for the distribution of centrally devolved revenues among the states and among the localities i.e. local governments (horizontal revenue sharing) and
- The percentage of federally collected mineral revenue that should be returned to the oil-bearing states and communities on the account of the principle of derivation and compensation for the ecological risks of oil production [9:8-9].

It is equally important to note that since the oil boom in the early 1970s, the revenue allocation arrangement has been bedeviled by time inconsistencies – a tendency of one of the parties in a consensual agreement to change the terms after the negotiations have been completed. The formula has been continually manipulated in the service of interregional and inter-ethnic cross-subsidization [10:51]. Suffice to say that revenue allocation formula are warped because they have not been ''open covenants openly arrived at''. Rather, they reflect the views of commissions, individuals, or groups within the commissions, which have shown proclivity for embracing theories, beliefs, ideals and approaches which have not only proved unrealistic, but have thereby contributed to the dislocations within the Nigerian state [4: 232].

The historical analysis of fiscal federalism is vitally important in unraveling the paradoxes of our time and to understand our contemporary predication. The thrust of this discourse therefore is to assess intergovernmental relations fiscal imbalance among the three tiers of government in Nigeria as bane for physical and political development.

Statement of Problem: Nigeria's intergovernmental relation is said to emanate from historical, economic, political, geographical, cultural and social dynamics; in all of these, the existing fiscal arrangements have remained as controversial an issue as it is problematic. There has been persistent and systemic fiscal imbalance in Nigeria fiscal federalism. Fiscal responsibility and taxing powers still remain considerably centralized, while federating units experience fiscal mismatch between spending and taxing powers. The true practice of fiscal federalism in Nigeria has been inhibited by several factors which among others include, the dominance of the federal government in the sharing of national financial resources from the Federation Account, the imposition of the command structure of the military on fiscal federalism, the pattern of assignment of responsibilities by the constitution among federating units and over-reliance on the revenue from the Federation Account. In the light of the above, this paper will engage three seemingly simple but difficult questions: What are the core issues in Nigeria's intergovernmental relations and fiscal federalism in Nigeria? What are the effects of fiscal imbalance on physical and political development in Nigeria? What are the strategies for ensuring fiscal equity and development in Nigeria?

Objective of the Paper: This paper sets out to investigate intergovernmental relations and fiscal imbalance in Nigeria as the bane of physical and political development. Pursuant to the above, the paper is intended to realize the following specific objectives;

- To assess the core issues in Nigeria's intergovernmental relations and fiscal federalism in Nigeria.
- To ascertain how fiscal imbalance affects physical and political development in Nigeria.
- To identify strategies for ensuring fiscal equity and development in Nigeria.

Research Questions: In line with the above objectives, the following research questions are posited to guide the study;

- What are the core issues in Nigeria's intergovernmental relations and fiscal federalism in Nigeria?

- What are the effects of fiscal imbalance on physical and political development in Nigeria?
- What are the strategies for ensuring fiscal equity and development in Nigeria?

MATERIALS AND METHODS

In this study, exploratory research design was employed. The goal of exploratory design is to discover ideas and insights [11: 76, 12: 27]. This study employed the exploratory design in order to provide a better understanding of intergovernmental relations and fiscal imbalance in Nigeria as the bane of physical and political development. In addition to the exploratory design, this study employed qualitative method in its data collection and analyses. Qualitative research emphasizes meanings (words) rather than frequencies and distributions (numbers) when collecting and analyzing data. Primarily, qualitative research seeks to understand and interpret the meaning of situations or events from the perspectives of the people involved and as understood by them (in this relying absolutely on documented evidence). It is generally inductive rather than deductive in its approach, that is, it generates theory from interpretation of the evidence, albeit against a theoretical background. Thus qualitative measures are often binary in that they are interested in the presence or absence of phenomena.

This study relied ultimately on evidences drawn from secondary sources. Secondary data is made up of documented and archival materials of great relevance to the subject matter of the study drawn both from extant literature, published works, gazette reports, Central Bank reports, statistical reviews and journals covering evidences on intergovernmental fiscal relations, fiscal imbalance and impact on overall development. Also textbooks by eminent scholars, newspapers, magazines and internet sources were also found useful and therefore form part of the secondary source of data for the study.

In view of the above, the paper adopted the method of content analysis in extracting information from the above enumerated sources of data gathering techniques. This will be followed by an analysis of the discussions through a logical validation process. Based on this, findings, conclusions and policy recommendations will be made.

Theoretical Framework: The basic foundations for the theory of fiscal federalism were laid by Kenneth Arrow, Richard Musgrave and Paul Samuelson. Three roles were identified for the government:

- Correction of market failure
- Ensuring equitable distribution of income
- Maintaining stability in the economy (full employment and stable prices).

The government was expected to interfere with the market system only when it failed [13, 14].

According to the basic theory of fiscal federalism, the central government should ensure equitable distribution of income, maintain macroeconomic stability and provide public goods that are national in character such as defense and security and money and fiduciary printing etc. Decentralized levels of government on the other hand should concentrate on the provision of local public goods while the central government provides targeted grants in cases where there are jurisdictional spillovers associated with local public goods.

In relation to revenue (tax, in the first instance) collection and administration, two factors are considered central for allocating tax-raising powers among the levels of government. These are administrative efficiency and fiscal independence. Tax raising powers should be assigned to the level of government that will administer it efficiently at minimum cost. It is also important that each level of government should be able to raise adequate resources to meet its needs and responsibilities.

In view of the above theory, federating units in Nigeria need a moderate amount of financial autonomy to be able to discharge its responsibilities effectively. Public revenue in a federal system assumes that there are benefits to be derived from decentralization. Public revenue decentralization occurs when lower tiers of government have statutory power to raise taxes and carry out spending activities within specified legal criteria. This is referred to as the Overlapping Authority Model propounded by Wright [15] on Intergovernmental relationships. Public revenue decentralization occurs when much of the money is raised centrally but part of it is allocated to lower levels of government through some revenue-sharing formula otherwise known as administrative decentralization.

He further states that the main reason for decentralization is anchored on allocation sharing or efficiency grounds so it is possible to advance argument for decentralization in Nigeria where there are many ethnic groups. Oates [13] contends that "there are surely reasons, in principle to believe that policies formulated for the provision of infrastructure and even human capital that are sensitive to regional or local conditions are likely to be more effective in encouraging economic development than centrally determined policies that ignore these geographical differences" There is a great relationship between decentralization and economic growth and behaviour for economic fundamentals within the decentralized jurisdiction is a matter that remains an empirical issue and discussions must be country specific.

Kim (1995) quoted in Oates [13] has shown that in his mode of explaining rates of economic growth, revenue decentralization that are positive and statistical significant change, using a sample of countries. His results also shows that, other things being equal, more public revenue decentralization was associated with more rapid growth in GDP per capita during 1974-1989 period. Prud'homme [16] on the other hand, argues that decentralization can increase disparities, jeopardize stability, undermine efficiency and encourage corruption. He maintains that local authorities, for example, have few incentives to undertake economic stabilization policies.

The instrument of monetary and public revenue policies are better handled by the central government. Oates [13] opines a contrary view that the principles of centralization is costly because it leads the government to provide public goods that diverge from the preferences of the citizens in particular areas (regions, provinces, states, local governments). He also argues that "when these preferences vary among geographical area, a uniform package chosen by a nation's government is likely to force some localities to consume more of less than they would like to consume. According to Tanzi [17] the interpretation of both Oates and Prud'homme assumes that sub-national government levels already exist, hence the crucial problem becomes which of the existing government levels ought to be responsible for particular forms of spending. The function of government can be divided into three-allocation, distribution and stabilization function [18].

Using this stratification, stabilization and distribution functions are expected to be under the periphery of the central government while lower government undertakes allocative functions. Hence, any spending and taxing decisions that will affect the rate of inflation, level of unemployment, etc. are better handled at the centre, while other activities that will affect social welfare are more efficient if undertaken by sub national governments. Theoretically, the scope of benefit is the basis for allocating responsibilities to governments. Also public goods and services delivery should be assigned to lower levels of government. Vincent [19], Studies on tax and public revenue mobilization in Nigeria have shown a high degree of centralization. According to Emenuga [20], the allocation of revenue to the tiers of government has not adhered strictly to the expenditure requirements of each tier, thus the federal government has become a surplus spending unit while other functions, he proposes the determination of a tier's share through the aggregation of its basic expenditure needs.

To reduce the gap between tax power and responsibilities, two types of revenue sources are allocated to each tier. These are independent revenue sources and direct allocation from the federation to which centrally collectable revenues are paid. Local government also receives allocations from state Internal Revenues. An agreed formula for vertical revenue sharing is used in sharing funds from the federation account. Another key issue in the practice of public revenue mobilization in Nigeria is how to distribute the bloc share from the federation account among the constituent units of each tier i.e. among the 36 states and the 774 local governments. This is called horizontal revenue sharing. In Nigeria, there are four categories in the vertical allocation list – federal, state, local governments and the special fund. The allocation to the Federal Capital Territory (FCT) is accounted for under the special fund which is administered by the federal government.

Conceptual Framework: In the words of Arowolo [21:11] understanding federalism as a concept facilitates the understanding of intergovernmental relations especially with regard to fiscal federalism as a larger concept. This is because federalism is the operational context within which intergovernmental relations, precisely fiscal federalism is situated. Thus, it is an integral aspect of federalism. But according to Iyekekpolo *et al*. [22], it has been difficult for scholars over the years to reach a consensus as regards the definition of federalism. This difficulty is hinged on the problem of inability to establish a proper linkage between theory and practice of federalism on the one hand and the issue of different scholars viewing federalism from different perspectives, on the other hand. However, the concept of federalism has attracted the attention of various scholars, in their definitions of the concept of federalism.

Conceptually, federalism, according to [23:150] 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 labeled variously as states, regions, republics, cantons or unions. Etymologically, Akindele and Olaopa, [24] revealed that federalism is derived form the latin word "foedus " meaning covenant, with a governing representative head, further, 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 such as states and local governments.

Sagay [25] 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 prosperities with its territorial area and with a will of its own as apparatus for the conduct of affairs and with an authority in some matters exclusive of others"

In line with the claim that federalism as a political theory is divergent in concept, varied in ecology and dynamic in practice; having to do with power is distributed or shared territorially and functionally among the various units in a federation, Wheare [2], the highly acclaimed father of federalism concentrated on the legal perception of federalism, when he defined federalism as a constitutional arrangement which divides law making powers and function of the state between two levels of government which are coordinate in status [22]. In lieu of his definition, it become obvious that (he) Wheare accentuated the need for respect of the federal structure as enshrined in the constitution of the land, especially when consideration is paid to the coordinate status of the components of the federation. He went further to argue that if the components discover that the services given to them are too expensive for them to perform and call on the federal government for assistance, they are no longer coordinated to the federal government, but subordinate to it and when this happens, federalism cease to exist.

In support of this observation, Nwabueze [26:1] acknowledged that: federalism is an arrangement whereby powers of government within a country are shared between a national (nationwide) government and a number of regionalized (i. e. territorially localized) governments in such a way that each exists as a government separated and independently from the others, operating directly on persons and property within its territorial areas, with a will of its own and its own apparatus for the conduct of its affairs and with an authority in some matters exclusive of all others.

In the final analysis, it is pertinent 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. It is in this context that federalism is been seen as the approach to governance that seeks to combine unity or shared rule with diversity or self rule [27].

With over 150 million people, two or more major religions, a few major and many minor languages, major geographic difference, 36 states and 774 local governments, Nigeria is one of the largest and most complex federations in the world. It has been said that countries are not difficult to govern because they are federations; they are federations because they are difficult to govern. Surely, Nigeria exemplifies this.

The knowledge derived from the conceptualization of federation makes it easier to come to terms with the assertion that intergovernmental relations subsumes fiscal federalism, which is concerned with "understanding which functions and instruments are best centralized and which are best placed in the sphere of decentralized level of government" [13:1120].

Characteristically, fiscal federalism is typified by the fiscal relations between central and lower levels of government, especially as made manifest by the financial aspects of the development of authority from the national to the state and local levels, covering two interconnected areas- the division of competence in decision making about public expenditures and public revenue between the different levels of government (national, state and local) and – the degree of freedom of decision making enjoyed by states and local authorities in the assessment of local taxes as well as in the determination of their expenditure [28:235].

Semantically, Akindele and Olaopa [24] sees fiscal federalism from the standpoint of the allocation of tax raising powers and expenditure responsibilities between levels of governments, hence fiscal federalism concerns the division of public sector functions and finances among different tiers of government [29:1]. Sharma [30:38] 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.

In any federal system, there must be an arrangement on how the revenue of the state will be shared among the component parts. The observation of Ronald Watts on fiscal federalism and revenue allocation is instructive particularly for Nigeria. As recognized by him, federal finance is a controversial subject. It also affects the allocation of administrative responsibilities. The percentage of revenue allocated to a tier of government will definitely affect or influence its performance. The assumption of Ronald Watts that the fiscal power and revenue allocation will determine the tier of government that controls the political economy is relevant to the situation here.

The nature of the fiscal federalism and revenue allocation places the federal government at a vantage position and to control the economy. The economic role of the public sector in a federal polity is the joint responsibility of all tiers of government. But in the case of Nigeria, the joint responsibility of these tiers of government in carrying out the functions of socio-political, administrative and economic management introduces complications in the nation's fiscal system [31].

In broad terms, fiscal federalism is the division of power, functions and resources among the tiers (Federal, State and Local government) in a federating system. There are principles that guide fiscal federalism and sustain the overriding factors of administrative efficiency and fiscal independence. These, according to Ndubuisi [32], include:

- *Independence and Responsibility* - The respective tiers of government should not only be autonomous in their resources but such resources should be enough to carry out their autonomous functions.
- *Adequacy and Elasticity* - The principle of adequacy means that the resources of the government should be adequate so that each government discharges its obligation. Elasticity implies the expansion of resources in response to rapidly growing needs and responsibilities of the government concerned.
- *Administrative Economy and Efficiency* - The administrative cost should be minimal and there should be no frauds and evasions in matters of finance.
- *Accountability* - Every layer of government should be accountable to their respective legislature.
- *Uniformity* - The financial system should be such that every government in the system should provide adequate level of public service without resort to higher rates of taxation than other states.
- *Fiscal Access* - Every state should have the authority to develop their sources of revenue within their own ambit.

It is in furtherance of these principles that the adoption of exclusive and concurrent legislative lists in a federal system becomes relevant. Both the national and state governments are granted certain exclusive powers (the exclusive list) and share other powers (the concurrent list).

A conflict often emerges on making decisions based on these criteria. To achieve administrative efficiency centralization is encouraged due to the lower administrative capacity at the decentralized levels. The goal of fiscal independence would encourage the devolution of more revenue-raising powers to lower levels of government to match the functions assigned to them. Hence, the means to these ends contrast.

In terms of fiscal federalism, the 1999 constitution provided in sections 31, 44(3) and 162 (1), (2), that:

- The entire property of all minerals, mineral oils and natural gas in Nigeria or its territorial waters are vested in the Federal Government.
- The principle of derivation shall be reflected in any approved formulas which are not less than 13% of the revenue accruing to the federation account from natural resources in any state.
- A special account called the Federation Account into which revenue collected by the government of the federation shall be paid except personal income tax of the personnel of the armed forces, the Nigerian Police Force, the Ministry or the department of government charged with responsibility for foreign affairs and the residents of the Federal Capital Territory.
- The National Assembly to ratify the allocation formula after receiving the proposal from the President who has been advised by the Revenue Mobilisation and Fiscal Allocation Commission (RMFAC).
- The National Assembly is to consider the population, equality of states, internal revenue generation, land mass, terrain as well as population density before making a decision.

The above Suggests a Perpetuation of the Status Quo.

Fiscal laws in Nigeria tend to give more powers to the federal government than the other sub-federal units combined. In fact, there is an increased dependence of the sub-federal units on the federal government particularly for their finances. State and local governments are neither given any strong fiscal incentive nor encouraged to generate revenue internally. In view of this, they are weak financially, whereas the weak financial base of states cannot strengthen or guarantee true federalism. As a result, there are discontentment, conflicts and agitation by the two other tiers against the federal government for self-reliance. It is argued that, for any federation to be sustained there must be fiscal decentralization and financial autonomy. However, in the case of Nigeria, there is fiscal imbalance due to over centralization.

A number of factors account for this, including the growing importance of crude oil, the civil war, military incursion into politics, the centralizing tendencies of the military and state creation exercises. But the factor that is of immediate concern here is the importance of crude oil and proliferation of states which, since 1967 has reduced the size and capacity of the states and made them inherently weak and excessively dependent on statutory allocation.

Further, Kalu [33] made pungent analysis of Nigeria's fiscal federalism, bringing to the fore the prevailing issues and practice coterminous with fiscal relations in Nigeria. In his enlightened submission; the issue of fiscal federalism is an intrinsic element in a federation, which is dependent on, but synonymous with fiscal decentralization. Suffice it however to aver that decentralization is a very important concept in any federalism question, including fiscal federalism. This is why; fiscal federalism has been considered a general normative framework for the assignment of functions to the different levels of government and appropriate fiscal instruments for carrying out these functions.

According to Arowolo [21:2] fiscal decentralization has become fashionable regardless of levels of development and civilization of societies. Hence nations are turning to devolution to improve the performance of their public sectors. In the United States, for instance, 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 service, 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 [30:169].

Issues in Fiscal Relations among the Three Tiers of Government in Nigeria: One of the primary features of a federal system of government is the assignment of functions between the various components of the federal government. This also forms the basis for the determination of revenue rights and the delimitation of revenue raising powers. This allocation is done via the two legislative lists- the exclusive and concurrent legislative list.

According to Akindele and Olaopa [24], the assignment of functions among federating units should be organized in the following ways:

- Functions which can be more efficiently performed by the federal government than lower levels of government should be assigned to the former (i.e. be placed in the exclusive legislative list). These include national defense, external relations (including borrowing and external trade), banking, currency, nuclear energy, etc.
- Functions whose benefits are more local than national but with the possibility of spillover effects should be placed in the concurrent list. Such functions include industrial, commercial or agricultural development, post primary institutions, health care, etc.
- Functions which are purely local in character, in the sense that the benefits accrue, in the main, to limited geographic areas within the country, are usually assigned to local authorities. Such functions would include the establishment and maintenance of markets, car parks and public conveniences, refuse disposal, primary education and the construction and maintenance of local roads and streets.

The foregoing suggests that the exclusive list should be smaller and limited to fewer items that will allow the centre to focus on the unity of the federal system while the concurrent list is utilized to empower the states to develop at their own paces. In Nigeria, the reverse seems to be the case. While the exclusive legislative list in the 1999 constitution consists of 68 items in the second schedule, the concurrent list contains only 30 items. The Federal Government has shared oversight function with the states in about 20 items in the concurrent list.

The revenue of the federation comes from seven distinct sources. These are sale of crude oil, taxes, levies, fines, tolls, penalties and charges. Oil revenues account for about 80% to 85% of the total revenue in the last three decades (AfDB, UNECA and OECD, 2010). In the period 2001-09, oil revenues as a proportion of GDP averaged 27% while tax revenues averaged 6.4%. Oil revenues have however been volatile, ranging from 35.6% in 2001 to 19.6% in 2009 when oil prices dropped as a result of the global recession.

Fiscal Imbalance and Effects on Physical and Political Development: Fiscal imbalance is a mismatch in the revenue powers and expenditure responsibilities of a government. In the literature on fiscal federalism, two types of fiscal imbalances are measured: Vertical Fiscal Imbalance and Horizontal Fiscal Imbalance. When the fiscal imbalance is measured between the two levels of government (Centre and States or Provinces) it is called Vertical Fiscal Imbalance. When the fiscal imbalance is measured between the governments at the same level it is called Horizontal Fiscal imbalance. This imbalance is also known as regional disparity.

While Horizontal Fiscal Imbalance requires equalization transfers, Vertical Fiscal Imbalance is a structural issue and thus needs to be corrected by reassignment of revenue and expenditure responsibilities between the two senior orders of the governments [30].

In the context of this paper, the main concern is vertical fiscal imbalance. Salami [34] therefore avers that 'the lion's share of total Nigeria's revenues is collected and retained by the federal government. For instance, between 1980 and 2008, about 93.9% of the total Nigerian government revenues were collected by the federal government. The trend has remained the same till date. This is not unexpected as the federal government is solely responsible for the collection of mining rights and royalties, petroleum profit tax (Nigeria's major revenue source) and share VAT collection with state governments. This implies that the local and state governments put together, collect less than 7% of Nigeria's government revenues; a situation which indubitably leaves them with little funds for development purposes.

On the other hand, about 70% of the federal government revenue comes from the federation account. However, internally generated revenue (IGR) efforts of states at 14% in the same period are generally very weak. State governments rely mainly on federal allocation, grants and proceeds from excess crude account as their major sources of funding. Also, the structure of local government revenue follows the same trend exhibited by federal and states government. In effect, the fiscal autonomy derived from coordinate and independent fiscal powers by the regions/states between 1954 and 1966 is virtually ineffective in the Nigerian federation today. Ojo [1] traced this to:

- The discontinuation of export duties and sales tax on agricultural produce, which used to be major sources of income for the regions in the 1960s
- The standardization of personal income tax rates throughout the country thereby rendering the states powerless to change rates- Exclusive list item.
- Introduction of uniform fuel prices across the country thereby removing the power of the state government to levy petroleum sales taxes
- Federal control of all onshore and offshore oil and royalties and rent which eroded the principle of derivation from the 50% to 13% currently in operation.

The impact of the above would be appreciated when the enormous natural, agricultural and enterprising potentials of many Nigerian states that are currently lying untapped are reviewed. Unfortunately, the fiscal (unitarism), in the words of Ojo [1], in the Nigerian polity, brought about by the above, provided incentive to abandon internal revenue generation drive, macroeconomic mismanagement and instability in the states. It is also an open license for uneconomical competitiveness in the federal government's provision of public services and public goods across the states, the so called 'federal presence'.

In the light of the above review, fiscal imbalance resulting from the lopsided nature or mismatch in fiscal arrangement in Nigeria polity has had far reaching consequences on the ability of the federating units of governments (States and Local Government) to fulfill their developmental responsibilities to the masses. The primary aim of government is to drive development. Though the definition of development has historically remained a difficult task, scholars of various leanings, in contemporary sense, seem to be at consensus that it means advancement in human and environmental conditions. Development demands that the necessary governmental structures and policies are put in place.

However, as evident in Nigeria, regardless of the positive roles played by principles of fiscal federalism, it must be cautioned here that no matter the structures and forms of government devised for a society, if the managers of such government or society are half-hearted about development, the realization of the benefits of federalism will be a mirage and practically unachievable. Unfortunately, this is the case with Nigerian federalism and political system. Nigeria is not a 'normal setting' by all indicators. Hence, the problem with the Nigerian fiscal federalism can be explained in terms of its historical origin and the character of its federal fiscal arrangements or regimes as well as we as blatant politicization of revenue sharing formulae that continue to make the operation of federalism centrist and inequitable both vertically and horizontally.

The bane of development; be it physical or political as a result of Nigerian fiscal federalism is blamable on a number of factors. Firstly, the issue of rent-seeking, which has not only negatively impacted development of the country but has most significantly, necessitated the politicization of fiscal federalism. Right from the period when the principle of derivation as a means of revenue sharing among the component units systematically diminished following the discovery of oil and the ascension of oil to the commanding height of the national economy; everything went wrong with fiscal federalism in Nigeria. Consequently, crude oil (black gold) became the major source of national income and the groundnut pyramid in the North, Palm oil production in the East and the cocoa farms in the West gradually vanished. Presently, majority of the states would not prefer derivation owing to the prevailing economic laziness that has crept into the psyche of states and national government.

Another factor, by extension, is the issue of diversification. Taken that crude oil is “quick money,” there is no law or logic that says that other sectors should be neglected, underdeveloped or jettisoned. Lack of diversification has led to oil been referred to as a curse: “resource curse.” This is because its discovery seemingly has deepened Nigeria’s economic laziness and woes as it has become traditional for states to go to Abuja each month cap in hands to receive their monthly allocation from the federation account. As if that is not enough, Nigeria’s annual budget is solely determined by the price of barrel of oil in the international market, which is usually very volatile to the extent that changes in the price of crude oil in international market have become a crucial source of macro-economic fluctuations in Nigeria. These Catastrophic effects of oil price shocks always negatively impact the national economy and development [35].

More so, Kayode [35] identifies the issue of cost and balancing merit in Nigeria’s federalism. He submits that Nigeria’s federalism is one of the most expensive because it remains a result of series of forcefully created units that ordinarily may not have existed otherwise. This is due to concerns relating to balance between the south and the north which had been historically patterned and reconfigured under military rule. It has been stressed that a federal system where units existed merely for political or pacifist reasons portends a great burden to fiscal federalism for the very simple reason that the fundamental objective of fiscal federalism is raising and spending of money. If this is so, why creating a state that cannot generate one-tenth of its own monthly recurrent expenditure how much more capital expenditure? Meanwhile, since some states have been created purely for political expediency whereas they lack economic viability, the spending and sharing of revenue from the federation account will continue to raise critical questions and meeting their developmental obligations will no doubt be a pipeline dream. In addition, some states, using their constitutional powers to borrow money without any viable means of repaying the loans will continue to be neck deep in debts. It is a fact that most of the states in Nigeria today borrow money from banks to pay staff salaries and cater for several other recurrent expenditures while several of them cannot even generate any revenue internally.

Recommendations: The following measures are therefore recommended as a means for ensuring fiscal balance and development:

- Machinery should be set in motion to review existing laws with respect to fiscal federalism and the pattern of revenue allocation in Nigeria to leverage more resources to the federating units for developmental purposes.
- The governments at all levels should ensure that machinery be in place to generate more revenue internally to enable them do more development projects.
- There should be more emphasis on economic diversification to reduce over dependence on statutory allocation from the federal government.
- Training and re-training programmes for the revenue officials at the state and local government levels should be organized to enable them meet the challenges of the new millennium in terms of innovations in revenue collection.
- Control measure should be put in place to check possible frauds and embezzlement by state officials.
- The management needs to establish a good internal control system to monitor and control the activities of the organization. This will also ensure that all monies collected are accounted for and all monies are expended for developmental purposes.

CONCLUSION

A number of questions raised by Peter Ozo-Eson are relevant here at concluding this discourse. These are; how should we restructure our fiscal federalism so as to maximize the reaping of economic efficiency and the stimulation of national development? The failure to grant control of resources to the lower tiers of government is impeding overall national growth and development'. Considering that every region and state in the Nigerian federation is well endowed with abundant resources- oil, solid minerals, forest resources, arable land, etc., the centralization of oil wealth and the resultant over-dependence of all states on the revenues there-from accelerated the national degeneration into the resource curse and Dutch disease conundrum. Nigerian states are shielded from a hard budget constraint, thus encouraging them to merely raid the common pool. Incentives for developing own tax bases and resources are thus stultified to the detriment of overall growth and development.

In other words, the call for the practice of true federalism in Nigeria where derivation principle and state ownership and control of resources is permitted is central to the future of the country. While these calls seemingly pay little attention to the postulates of fiscal federalism regarding administrative efficiency and equality but are mostly reactions to the unfair treatment of the oil producing states against which development is skewed, a return to the 50:50 derivation formulas would provide the incentive for the states to begin to develop their revenue generating capacity. The clamour for oil wealth has left other viable options significantly underdeveloped. Nigeria is a resource rich nation and there is potential for developing more stable, sustainable sources of non-mineral revenues. There is also a need for increased transparency and better coordination of policies in the bodies responsible for allocating and performing these roles.

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