10
Fiscal Federalism in Nigeria: Issues, Challenges and Agenda for Reform

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10.1 Introduction

Resource allocation and management as well as fiscal federalism/decentralization have remained contentious issues in a federal state such as Nigeria. This is because the essence of government at all levels is to bring about rapid economic development through adequate provisions of social and economic infrastructures for the citizenry. The fiscal arrangement within the federation should, therefore, adequately cater for the federating units to enable them to discharge their constitutional responsibilities. Consequently, the struggle for control of power and equitable distribution of resources by the component units that make up the federation is driven by the need for balanced development, fiscal justice and fair play. Fiscal federalism has, therefore, become part of a worldwide ‘reform’ agenda supported by the Bretton Woods institutions such as the World Bank and the International Monetary Fund (IMF), and several international institutions such as the United States Agency for International Development (USAID) and Asian Development Bank. It has become an integral part of economic development and governance in developing and transitional economies (Bahl, 1999). Fiscal decentralization and the desire for local discretion and devolution of power is often seen by the World Bank as a vehicle to promote governance and development in developing countries such as Nigeria. James (2003) observed that the underlying basis for the renewed interest in fiscal federalism/decentralization as an aspect of any reform agenda includes the following: (i) central governments have discovered that it is impossible for them to meet all the competing needs of their various constituencies and are therefore attempting to build local capacity by delegating responsibilities downward to their regional governments, (ii) central governments expect regional and sub-regional governments to implement national economic development strategies and (iii) regional and local political leaders are demanding more autonomy and want the taxation powers that go along with their expenditures.

The situation in Nigeria is, however, different. The paradox of Nigeria’s fiscal system is that it focuses more attention on ‘sharing’ than ‘generating’. In other words, increased revenue generation has attracted less attention than revenue
sharing. This is because oil remains the highest contributor to the distributable pool of the federation. In fact, the over-dependence on oil has become a propelling wind of regional agitations instead of energizing efforts towards diversification of the economic base for a virile and durable economy. For instance, the crisis in the Niger Delta has been traced to inequitable fiscal systems among others. The issues that need to be addressed therefore are: (i) Has the current fiscal system resulted in desired development by the citizenry? (ii) What are the consequences of the sustainability of the current fiscal system on the ‘Nigeria Project’? (iii) What policy measures should be adopted to achieve balanced development among the component units of the federation? (iv) What are the challenges for promoting fiscal harmony in the Nigerian federation? The answers to these issues have become imperative against the backdrop that fiscal decentralization has become a global reform agenda for meeting the challenges of the Millennium Development Goals (MDGs). In the Nigerian federation, struggles between federal and state governments remain significant obstacles to the realization of the goals of the ongoing economic reform under the aegis of National Economic Empowerment and Development Strategy (NEEDS).

In analysing fiscal federalism in Nigeria, it is important to view the federal government of Nigeria as one, with both centralized and decentralized levels of decision-making in which choices made at each level concerning the provision of public services are determined mainly by the demands for those services by those residing in the respective jurisdiction.

Sub-national governments in Nigeria can be justified for three reasons. (i) The present democratic experiment seems to work best the closer the government is to its constituency. The assumption here is that a sub-national government such as a local government will be better at perceiving the desires and demands of its constituents for public services than a centralized government far away in Abuja. (ii) People living in the various states and local governments have the right to demand different types and quantities of public goods and services; states and local governments have been agitating that they are better placed to provide certain utilities that are currently being provided by the federal government. For example, the federal government seems to have failed in attempting to provide electricity. However, while states argue that they are in a better position to provide electricity, the federal government is still insisting on doing same by investing in independent power plants. (iii) Finally, to reduce ethnic tension. This is broadly at two levels – federal and state. At the federal level, there exists some understanding that power is being shared among the three major ethnic groups.

The creation of states, apart from decentralizing decision-making, also gave minority ethnic groups a sense of being part of the federation. This is not to suggest that there are no ethnic tensions within states. On the contrary, ethnic tension does exist but perhaps better than would have been the situation if states were not created. For example, in Akwa Ibom State in the south-eastern part of the country, the majority ethnic group (the Ibibios) are about 2.5 million in population. In the Nigerian context, the group is a minority one but in the state, it is a majority ethnic group co-existing with other smaller ethnic groups. Ethnic