International Journal of Accounting and Taxation
December 2020, Vol. 8, No. 2, pp. 17-23
ISSN: 2372-4978 (Print), 2372-4986 (Online)

Published by American Research Institute for Policy Development
DOI: 10.15640/ijat.v8n2a3
URL: https://doi.org/10.15640/ijat.v8n2a3

Inter – Governmental Fiscal Relations and Issues of Economic Development in Nigeria: The Way Forward

Sani Alfred Ilemona[1] & Nweze Augustine U[2].

Abstract

The paper examined the fiscal arrangement among the federating units in Nigeria in terms of how the common resources are shared and the impact of the share resources/revenue on the economic development in the society. The study is a theoretical review of existing literature related to the subject matter. Evidence from studies suggested that shared revenue/ public funds have not impacted positively in terms of addressing development challenges in the nation. it was also discovered that over reliance on oil revenue (mono economy) to the neglect of exploitation of other viable revenue yielding sources is largely responsible for myriad of financial challenges of the nation and inability to cope with issues of the economic development in the society. The study concludes with the recommendation to change the model of intergovernmental fiscal relations in Nigeria from the practice of depending majorly on the oil revenue of the federation account (federal allocation) to diversify the economy. Diversification will open up all the units of the federation to many revenue yielding activities that will have meaningful impact on the economic development in the society.

Keywords: fiscal relations, federating units, economic development, financial challenges, diversifying the economy.

Introduction

The multi – level government structure and endless needs of each structure are critical factors that will continue to shape the fiscal relations among the federating units in Nigeria. There is always a continuous agitation by each of the units to be allocated a high percentage of the distributable pool (the national revenue). The greatest and perhaps the bitter agitation for acceptable formula for sharing the common resources came to fore when the derivative criteria seems to be relegated to the background in the later part of 1980s and early 1990s. The derivative agitators argued for a higher percentage of the revenue in the sharing formula for those states and local government areas where the most lucrative revenue yielding resources particularly oil are obtained.

From colonial era in the 20th century to date in the 21st century, successive government in Nigeria have not been able to arrive at a formula acceptable to all federating units despite commissions set up to address the issue. There was Phillipson commission in 1946, Hick-phillipson commission in 1951. Hick – phillipson commission in 1953, Raisman commission in 1958, Binns commission in1964, decree number 15 of 1967, Dinna committee in 1969, decree No 13 1970, decree No 9 of 1971, decree No 6 of 1975, Aboyade committee in 1977, Okigbo commission in 1980, Revenue Allocation Act of 981, Revenue Allocation Amendment Decree in 1984 and Decree No 49 of 1989 which gave birth to the National Revenue Mobilization Allocation and Fiscal Commission (NRMAFC)

It is the NRMAFC that came up with the basic principles of revenue allocation among the three tiers of government in the country. The basic and acceptable principles evolved by NRMAFC are Derivation, Population and Equity (DPE) (Kayode & Alani, 2015). The D principle is an assertion that the states from where bulk of the nations revenues and derivable/ obtained should receive extra share above what other states receive. The P criteria dwells on the fact that states with large population should receive extra share above others with smaller population. The E basis is a belief that though men are created equally, but are endowed differently. Similarly, states are created equally, but there arrive at creation with different endowment of economic, financial and political power (Adams 2004). The principle therefore beliefs that revenue sharing among the states should be done equally.

[1] Department of Accounting and Business Administration , Federal University, Kashere. Gombe State. Nigeria.
[2] Department of Accounting, Enugu State University of Technology (ESUT) Enugu State. Nigeria.

The clamour for more favouring revenue sharing formular among the federating units is ever worsening for the insatiable demands of the units that bother on financial needs (otumba & Adu, 2019). It is in the bid to satisfy the needs that the constitution allocates the most lucrative revenue sources in the nation's account shared among the federating units. These juicy sources of revenues are those derivable from direct taxes such as company income tax and petroleum profit tax, indirect taxes such as custom and excise duties and taxes from mining activities which include mining fees, rent on crown lands , royalties on gold, tin iron ore, bitumen, coal etcetera. Also, states where the resources are obtained are entitle to additional (extra share) of the allocation from the federation account (the national cake). Apart from the share of the federation account, the law (the constitution) allows each tier of government to levy and collect certain taxes within their jurisdiction.

It s quite worrisome however, that despite the numerous revenue sources available to each of the units, endless claims ranging from victimization, marginalization by all regions, zones states and local government of the nation continues unabated in terms federal allocation with little or no emphasis on maximizing the existing sources of revenue, exploring new uses and utilizing them for economic development of the society. Thus, Chukezie and Patrick (2017) observed that total abandonment of all revenue potentials and failure to properly harness the existing revenue sources by federal, states and local governments in Nigeria are key issues that have impacted negatively on all economic development indices in the Nigerian society.

Objective of the study

Nigeria is a monoculture economy that dwells mainly on oil revenue. The size of the distributable pool (the federation account) therefore depends on the amount derivable from this revenue source. It is often noted that the size of the account do shrink from time to time due to a myriad of factors such as production stoppage and fluctuation in oil prices in the international market. Unfortunately, the federating units rely majorly on the share from the account for revenue to the neglect of other potential and viable sources that could be exploited for additional income (Olanuga & Ajayi, 2014). The objective of this study therefore is to look at the consequences on the economic development of the nation, her over dependence/reliance on the federation account especially the states and local government councils with a view to proffering solutions on how to stimulate economic development in the society without having to depend heavily on revenue from the federation account/federal allocation.

Conceptual review

Inter Governmental Fiscal Relations (IGFRs): It involves the pattern of financial cooperation among various levels of government in a federal system (Fatile & Adejabu, 2008). IGFRs or a fiscal arrangement means how various levels of government in a nation or state constitutionally relate or connect in the sharing of financial resources of the country (Nchuchuwe & adejuwon, 2015). It is a policy that brings to fore the nation it is a policy that brings to fore the nature of financial engagement between and among the units within a federal system of government (Edeh Olobo, 2014). Dapo and Fusuyi (2018) opined that IGFRS or fiscal arrangement is an arrangement that is clearly defined by the constitution and it shows how the tiers of government share the financial resources of the nation. The whole idea of IGFRs therefore hinges on how resources /revenues are allocated among units in a federal system enshrined in the constitution (Teidi, 2003 cited in Nchuchuwe & Adejuwon, 2015). It is the allocation of responsibility for public expenditure and powers to raise revenue by different levels of government (Bradley & smith 2009). The essence of IGFRs is to harness uneven geographical distribution of resources available in the nation to be shared equitably among units in the federal system (Ebajemu & Abudu, 2011). Equitable distribution of resources of nation through IGFRs is one of the viable means for transferring purchasing power from the richer to the poorer region in order to reduce inequality in the society (Gbadasi & Alabi 2014).

Generally, IGFRs is concerned primarily with how centrally collected revenues are shared among tiers of government by the use of pre – agreed formula Adams 2004). The use of pre – agreed formula for allocation of common resources is a means of promoting social cohesion and unity among various zones, tribes and ethnic groups within a country (Gbadasi & alibi 2004). Over the years, Nigeria has been trying to stimulate national cohesion for economic development of all regions through various revenue sharing formula with a view that each level of government should be able to legitimately exploit, raise and keep some revenue for its use.

Some of the revenue allocation formula which have been suggested and tried over the years are summarized in the table below.

Table 1: Revenue Allocation Formula up to 2020: Revenue allocation formula in % up to 2020

Allocations	Up to 31/12/89 %	1/1/90 to 31/12/91 %	1/1/92 to 31/12/91 %	1/6/92 to 31/12/2002 %	2003 %	2004 %	2005 – 2020 %
Federal government	55	50	50	48.5	46.63	47.19	52.68
State government	32.5	30	25	24	33	31.10	26.72
Local government	10	15	20	20	20.37	15.21	20.60
Special fund	2.5	5	5	7.5	-	6.5	-
Total	100	100	100	100	100	100	100

Source: Editions of National Bureau of Statistics NBS and CBN Statistical Bulletins (1989…2020)

The revenue sources for federation account (distributable pool) for allocation to the federating units based on the 2020 formula in table 1 are depicted in table below.

Table 2: Federation Account and Head of Revenue Sources.

Revenue Head	Sources of Revenue
Head 1	Direct taxes: examples of direct taxes are company income tax, petroleum profit tax, surcharge on pioneer companies, withholding tax, capital transfer tax etcetera. Also included in this revenue head are earnings from direct sales of crude oil for domestic consumption and export.
Head 2	Indirect taxes: custom and excise duties, import duties, export duties, tariffs, Value Added Tax (VAT)
Head3	Mining: mining revenue include mining fees, rent in crown lands ,royalties on gold, tin, iron ore, bitumen, coal and revenue derivable from mining related activities.

Sources: Constitution of Federal Republic of Nigeria, Finance (control and management) Act 1958, Audit ordinance (1958) cited in Adams (2004)

Economic Development: is defined in terms of removal of poverty, illiteracy, diseases with positive changes in the living standard of the society (Laffati & Payne, 2002). It is a process where low income national economies are transformed into modern industrial economies for qualitative and quantitative improvements in a country's economy (Breton & Davy, 2008). It is a political economic and social transformation that occurs over a period of time involving passage from lower to higher stage in a society implying changes (Meier, 1964 cited in Gbadasi & Alabi, 2014). Kindler and Bruce (1958) cited in Chukezie & Patrick (2017) viewed economic development to include improvements in material welfare especially for persons with the lowest income, eradication of mass poverty with its correlates of illiteracy, diseases and early death. Graham and Adler (2015) stated that development is an economic thought of a nation which include shift in an underlying structure of production from subsistence agriculture towards industrial activity for more opportunities in the society. Collaborating Graham & Adler (2015) Yilmann and Seigh (2016) opined that economic development is process that involves the organization of an economy in such a manner that productive employment is generally among the working age population rather than the situation of a privileged minority and the corresponding greater participation of broad based groups in decisions that bother on their welfare. Drewnewski (1996) cited in Yilmann & Seigh (2016) defined economic development in terms of economic and social welfare to mean increased per capita income and creation of new opportunities in education, healthcare and employment sector.

Seers (1972) cited in Fatile & Adelabu (2018) raised the basic questions about the meaning of economic development succinctly when he asserted questions about a country's development such as what has been happening to poverty?, what has been happening to unemployment? and what has been happening to inequality in the society?. Rising trend in these economic development indicators will be of concern to a nation to deploy all her actual and potential economic resources to improve them (Kayode & Alani 2015). Generally, economic development is concerned with economic, social, institutional mechanisms and policies that are necessary for bringing large scale improvements in the levels/ standard of living of the masses (Bradley & Smith, 2009; Ebajenu & Abudu, 2011; Gbadasi & Alabi, 2014)

Economic Development Issues in Nigeria

The most critical issues impeding economic development in Nigeria are that of the population growth, unemployment, poverty and illiteracy with all manners of negative socio economic consequence in the society.

It is sad that the ever rising rate of underemployment in the country is alarming. The social consequences of unemployment in the society is worrisome as many of unemployed Nigerian youths including graduates have taken to all forms of crimes and criminality of arson, armed robbery, kidnapping, thuggery, insurgency, militancy, murder, drug abuse, prostitution among others.

The table below shows the rising rate of unemployment in Nigeria in the last five (5) years.

Table 3: Unemployment Rate (%) in Nigeria 2016 – 2020

Year	Growth rate (%)	Increase/ decrease in rate (%)
2016	13.9	Increase of 3.5 from 2015 which was 10.4
2017	14.1	Increase of 0.2 from 2016.
2018	8.85	Decrease of 5.5 form 2017.
2019	23.1	Increase of 14.25 from 2018
2020	33.5	Increase of 10.4 from 2019

Source: National Bureau of Statistics (NBS) (2016…2019). Year 2020 figure is estimated.

The direct multiplier effect of unemployment is poverty not being able to afford the basic necessities of life (food, shelter and clothing) including inability to go to school to learn how to read and write resulting to inequality in the society.

In terms of ranking, it quite unfortunate to note that about 69% of Nigerian population of 200 million people lives below the poverty threshold of $1.9 per day as the country ranks 125 out of 145 countries on global inequality (Nigeria Economy Profile, 2018; Oxfam Report, 2019). As the country faces major population boom (growth), it is estimated that Nigeria could become the world's third largest country by 2050 with majority of the population living in extreme poverty (Otumba & Adu, 2019).

With these ugly reports of the country's economic development rating, Otumba and Adu (2018) remarked that it will be practically impossible for majority of the population to meet the basic necessities of life, attain self esteem in terms of self respect, independence and freedom from misery of three evils of Want, Ignorance and Squalor (WIS).

Dapo and Fasuyi (2019) collaborating Otumba & Adu (2018) noted that in most developing nations especially in sub-Saharan Africa and Nigeria in particular, issues of economic development are that of challenges of population growth, ever rising rate of unemployment, poverty, illiteracy and inequality with corresponding problem of how to source and deploy/allocate ever scarce public resources/public funds to reduce the socio economic effects of the issues in the society.

Empirical Review

Dele (2015) conducted a study on fiscal federation and economic development in Nigeria: The contending issues. The aim was to examine the nexus between Nigeria's fiscal federalism and the rate of economic development in the country. It was discovered that fiscal federalism has not spurred the desired development in the country due to over dependence on oil revenue for public expenditure to address economic development challenges in Nigeria.

Richard and John (1990) did a study on inter – governmental fiscal roles and relations. The research reviewed the changing roles and relations between the federal, states and local government. It was discovered that in the past years, much funds have flown from the central (federal) to the two federating units with little to show on economic development.

Okechukwu, Patrick and Jide (2019) examined the model and determinants of state and local government relations in Nigeria. The study investigated the extent to which constitutional provisions determine state and local government relations as against the macro structure of inter-governmental relations between the federal government and states. It was discovered that the level of autonomy enjoyed by local government largely depend on the level of autonomy the states themselves enjoy with impact on the extent of economic development projects each of these federating units can undertake.

Broadway (2001) conducted a study on the inter-governmental fiscal relations: The facilitator of fiscal decentralization. The aim was to examine the system of fiscal relations including the grant structure of fiscal relations. It was discovered that decentralization is suitable as this can impinge upon efficiency, equity and fair development in the society.

Nchuchuwe and Adejuwon (2015) did study on the inter-governmental fiscal relations and local government in Nigeria: Issues and prospects. It was an exploratory study that examined the nature of intergovernmental fiscal relations and local government in Nigeria. Findings suggest that local government autonomy is sacrosanct for meaningful economic development at the grass root.

Egwu, Ugbomhe, Osagie and Eme (2016) studied inter-governmental financial relations problems in Nigeria. The aim was to ascertain problems of inter-governmental fiscal relations in Nigeria. It was an empirical study that made use of secondary data obtained from publications of NBS and CBN reports. The technique of content analysis was used to analyze the data. Findings suggest that the nature of state and local government joint account contributes to the failure of states in carrying out their developmental responsibilities.

Other studies (Talmot & Dawudu, 2013; Olanuga & AJayi 2014; Salami & Majuh 2016) in their separate studies on inter-government fiscal relations and development in the society used different analytical techniques such as t- test, correlation and regression analysis to examine the impact of revenue allocation in Nigeria. It was found in these studies that revenue from federal allocation has no significant impact on the economic development in the society.

Theoretical Framework

The study is anchored on displacement theory provided by Jack and Allan in 1961. The theory assumed that public expenditure does not increase in a straight or continuous manner but in Jack or step wise fashion. The increase in the movement pattern of government expenditure is as a result of occurrence of some social or other disturbances which the existing level of revenue cannot meet (Singh, 2008). The movement from the initial and low level of expenditure and taxation to a new and higher level is known as the displacement effect. Displacement effect leads to creation of inspection effect where both government and the people (tax payers) would attain a new level of tax tolerance by reviewing revenue position and finding solutions to address problem of inadequate revenue.

Methodology

It is an exploratory paper that reviewed theoretical as well as empirical studies on inter-governmental fiscal relations and issues of economic development in Nigeria. Findings from literature reviewed suggest that the challenges of economic development and related issues in the country are so enormous that reliance of the federating units on revenue majorly from federation account cannot cope. Though the issues are monumental, they are not intractable as the paper presents ways of changing the economic model of fiscal relations in Nigeria towards true federalism.

Findings and Discussion

The nagging issue bothering Nigeria as a nation is whether the country will continue to depend on the federation account and indeed oil revenue to address her challenges of economic development.

Quite apart from federation account and oil money from excess crude account shared among the federating units, each of the tiers of government in Nigeria are entitle by law to raise certain taxes within areas of their tax revenue jurisdiction. These revenue sources are recklessly abandoned due to reliance on revenue from the central government (Olanuga & Ajayi, 2014). Failure of the units to innovate, explore and harness all revenue yielding potentials have negatively impacted on the society as each of the tiers are always in desperate need of funds to execute their responsibilities. This therefore brings to question the impact of shared revenue on economic development in the society (Talmolt & Dawudu 2013; Olanuga & Ajayi, 2014; Salamis & Majuli, 2016).

The primary objective of raising public fund is to secure minimum standards of living to all citizens evidenced by low level of unemployment, poverty, illiteracy and inequality in the society. It is unfortunate that Nigeria is rated low in these key development indices. It is equally sad that significant percentage of the nation's population live in poverty with a wide gap between the rich and the poor signifying a huge inequality in the society (Nigerians Economy Profile, 2018: Oxfam Report, 2019)

Positive changes in the living standard of Nigerian society may be difficult to attain with ever rising rate of population growth. Equally, a guaranteed economic and social welfare of citizens with increase in per capital income and creation of new opportunities in education, health and employment referred to economic, development (Yilmann & Seigh, 2016) may be difficult to achieve with population upsurge in the country.

As a mono cultural economy where the only major source of fund is oil revenue of the federation account, problems such as housing, environmental sanitation, health, education, provision of infrastructure, employment creation and so on associated with population growth requires funds to address of which reliance on one major source of revenue cannot solve.

Conclusion and Recommendations

All economic development performance indicators in Nigeria are not quite impressive. It is quite unfortunate that all government intervention targeted at addressing developmental issues have not yielded the desired results. One of the major reasons for this undesirable results particularly that of the youth employment and poverty eradication are paucity of funds to enable government execute the necessary intervention programmes in these key areas of development. It is disheartening and suicidal that about 90% of Nigeria's revenue is from oil as the collapse of this source is a matter of time as countries such as china, Japan, Britain, U.S and other buyers of the nation's oil have started finding alternatives to crude oil for their industrial and domestic activities.

In a true federal structure, the central (federal government gets its revenue by collecting taxes from multiple layers of economic activities in several states and local government councils. This structure is different from what is happening in Nigerian environment where little or no attention is paid to other sectors that could be explored for revenue.

Prior to the nation's independence in the 60's when there was no federation account and oil money to share, the country depended on multiple of natural resources abound in all regions for revenue. These resources are tapped, used locally and exported for earnings in foreign exchange. That was when the nation's currency was at per or even stronger than the U.S Dollars or British pound. The economy was strong evidenced by low level of unemployment and Poverty with high economic growth indicated by high Gross Domestic Product (GDP) growth rate. With many companies and local industries springing up then, the nation was on a sound path in her quest for industrialization.

Unfortunately, the weakness of Nigerians economy came as a result of the operation of mono economy. The practice has blurred the ability of government at all levels to explore other sectors for revenue. Therefore, for a change in the model of inter governmental fiscal relations that can impact positively on the economic development in Nigerian society, the following recommendations are suggested as a way forward.

1. There is need for the nation to turn attention to numerous resources that available in all states of the nation for exploration. This is diversification from mono-economy to multiple revenue yielding sources.
2. Closely related to diversification from mono- economy is need for devolution of power that will enable states of the nation to develop resources that are available in their domain. The states can only pay certain percentage of the revenue generated from production and sale of these resources to the central (Federal) government. This will certainly trigger a lot of economic activities in the entire nation.
3. In diversification and power devolution, there is need for the lower levels of government to enjoy some degree of autonomy. States and local government councils should be allowed to make decisions on how best to explore and put to use their resources for revenue generation and investment.
4. Economy diversification, power devolution, autonomy and decentralization from the higher (federal) to lower levels of government (states and local government councils) are all needed to bring about economic growth and development of the nation. With diversification, a lot of economic activities will spring up in the country. The multiplier impact of increased economic activity is increased revenue for government at all levels, employment opportunities, reduction in crime rate, poverty level, inequality and improved living standard in Nigerian society indicating economic development.

References

Adams, R., A (2004). *Public sector accounting and finance made simple.* 3rd Ed. Lagos Corporate Publishers.

Boadway, R. (2001). Inter-Governmental Fiscal Relations: The Facilitator of Fiscal Decentralization. *Constitutional Political Economy.* Vol. 12(1). 93-121. 10.1023/A:1016693903035.

Bradley, S., H. & Smith P., T (2009). *Principles of taxation and tax policy.* 1st Ed. Ibadan ETL publishers.

Breton, K., A. & Davy, H., V. (2008). Dynamics of fiscal relations and growth in developing economics. *Journal of Public Finance and Economics* 1(2): 73 -87.

Central Bank of Nigeria (CBN) Annual Accounts and Reports Various Issues.

Chikezie, P.N & Patrick, C.K. (2017). Challenges of economic development in Nigeria. *Journal Of Development Studies* 2(4): 74-89.

Dapo, G., E. & Fasuyi, R.C (2019) *Public finance* 2nd Ed. Lagos KRC publishers.

Dele, B (2015) Fiscal federation and economic development in Nigeria. The contending issues global *Journal of Political Science and Administration* 3(2): 53-66.

Ebajenu, C., N & Abudu, L., I. (2011). Towards true federalism in Nigeria. *Journal of Economics And Finance* 2(1): 84-98.

Edeh, T., U & Olobo, A.C (2014). Fiscal federalism and challenges of dividing revenue in Nigeria. *International Journal of Political and Economic Studies* 3(5): 63-74.

Eguwu, U.E, Ugbombe, O.O, Osagie, N.G & Eme, O.I (2016). Inter-governmental financial relations problems in Nigeria. *Specialty Journal Of Humanities And Cultural Science* 1(1), 1-14.

Fatile, I. N. T. & Adelabu, O.A (2018). Dimensions of fiscal federalism in Nigeria. *Journal of Economics and Policy Studies* 5(2), 36-51.

Gbadasi, O.B & Alabi, D.A (2014) Revenue allocation and issue of accountability in Nigeria. Paper presented at a workshop held at Federal Polytechnic Idah, September. Pages 12-14.

Graham, P.R & Adler, M.B. (2015). Addressing inequality through taxation. *Journal Of Political And Development Studies* 1(3), 35 -49.

Kayode, E.O & Alari, N.R (2015). Intricacies of fiscal federation in Nigeria. *International Journal of Social and Contemporary Studies* 3(4), 122-123.

Laffati, W.S & Payne, T.C. (2002). *Theory of public finance* Czech. 1st (Ed) UTLN Publishers.

National Bureau of Statistics (NBS) Reports. Abuja Government Printers.

Nchuchuwe, F.F & Adejuwon, K.D (2015) inter-governmental fiscal relations and local government in Nigeria: Issues and prospects. *Scientific Research Journal* 3(10): 31-43.

Nigeria's Economy Profile Report, (2018).

Okechukuwu, M.I, Patrick, C. C & Jide, I. (2019). Model and determinants of state and local governments' relations in Nigeria. *Brazilian Journal Of Public Administration* 53(6), 13 – 24.

Olanuga, O. M & Ajayi, F.I (2014). Theory and practice of fiscal federalism in Nigeria. *Journal Of Management And Contemporary Studies* 4(3), 71-83.

Otumba, O.A & Adu, B.W (2018). Tackling Nigeria's development challenges. *Journal Of Financial Studies And Economics* 1(2), 121-134.

Oxfam Report on Nigerian Economy (2019).

Richard, P.N & John, R.L (1990). Inter-governmental fiscal roles and relations. *The Annals Of American Academy Of Political And Social Science*. Vol. 509(1): 36-47.

Salami, S.U. & Majuh, O.K. (2016). The realities of revenue allocation in Nigeria. *Journal Of Economics And Financial Management* 6(2): 23-35.

Talmot, L.W & Dawudu, A.N (2013). Reconsidering revenue allocation formula in Nigeria. *Journal Of Commerce And Financial Studies* 2(5), 48-62.