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Resource abundance and the dilemma of fiscal federalism in Nigeria

Dele Babalola[1] and Chukwuemeka Okafor[2]

[1] Department of International Relations and Diplomacy, Baze University, Abuja, Nigeria
Email: delebabs@yahoo.com
[2] Department of Government and Public Administration, Baze University, Abuja, Nigeria.
Email: emeka.okafor250@gmail.com

Abstract

This article examines the complexities around fiscal federalism in Nigeria within the framework of the resource curse thesis. Nigeria is an oil-rich federation yet governments at all levels perform poorly. State governments continually experience fiscal gap and deficiency in service delivery. Not only that, the vast majority of the citizens live under the twin burden of poverty and unemployment. The inability of the Nigerian state to address these challenges, despite the huge oil revenue, contributes to the continuous debates over the value of the country's fiscal system. The article contributes to the understanding of how Nigeria's oil-centric economy shapes the fiscal system. It argues that the failure of oil resources to generate economic prosperity in the states is rooted in the flawed fiscal system that encourages the sharing of the oil wealth rather than economic production at the state level. The article recommends a more functional fiscal federalism that would recognise the fiscal autonomy of the tiers of government. That is, a fiscal system with less reliance on the centrally-generated oil revenue.

Keywords: Nigeria; Fiscal Federalism; Resource Curse; Resource Abundance; Oil Dependence.

1. Introduction

If we accept that fiscal federalism is a function of the national political economy that highlights the fundamental features of a federation (Burgess, 2006: 148), it, therefore, follows that there is a nexus between fiscal federalism and economic development of a given federation. There is also a relationship between resource abundance and economic prosperity or a lack of it. Nigeria, for example, is an oil-rich federation, yet the country's economic story has been that of increasing poverty, unemployment and lack of economic growth. Moreover, state governments have continued to perform poorly in terms of service delivery. Between 2015 and 2016, state governments experienced some financial glitch, which arose from the drop in federal allocations, which in turn resulted from the fall in the price of oil in the global market. The federal government had to provide some bailout funds to the distressed states. Since then, state governors have not ceased to clamour for more bailout, arguing that their states' accounts are unendingly in red. They have ceaselessly blamed the states' continuous inability to balance their budgets on the lopsided nature of the revenue allocation system in which the federal government is allocated the lion's share of the national wealth. This sharing arrangement has largely contributed to the clamour for fiscal decentralisation.

In Nigeria, the states experience fiscal problems on a regular basis. One obvious reason for this is the inherent economic disparity among the states of the federation. Not all the states are blessed with natural resources. Another reason is the variation in the population. Yet another cause of this problem is the revenue allocation system which strongly favours the centre to the detriment of the sub-national tiers (state and local governments). These problems have contributed to the culture of fiscal dependence in the federation. Fiscal federalism is characteristically intended to achieve the overall national socio-economic growth of the federation, as well as a balanced federation. The question, therefore is: despite Nigeria's colossal oil wealth, has fiscal federalism achieved this twin objective? Another basic principle of federalism is that the fiscal system must ensure self-sufficiency of the constituent units. Has the fiscal system been able to guarantee self-sufficiency at the state level? The overarching research question, therefore is: what is the nature of fiscal federalism in Nigeria and does fiscal federalism impact on development given the country's resource abundance? The purpose of this article, therefore, is to answer these pertinent questions.

The remainder of the article is organised into five sections. The first section examines the conceptual meaning of fiscal federalism and resource curse.

Exploring the meaning of these concepts helps to lay a foundation for the paper. The second section provides an overview of the character of Nigeria's fiscal federalism. This contributes to our understanding of how the country's wealth is distributed among the three tiers of government – the federal, state and local governments. In the third section, the paper examines why Nigeria epitomises the resource curse phenomenon. The fourth section basically focuses on the dilemma of Nigeria's fiscal federalism. The section principally discusses how oil abundance constitutes a curse rather than a blessing in the oil-rich federation. Finally, the fifth section is the conclusion. This section argues that Nigeria's oil is a curse and if the curse is to be reversed, the fiscal system must guarantee states' fiscal autonomy.

2. Fiscal federalism and resource curse: conceptual meaning

Fiscal federalism

According to Oates (1999: 1120), "fiscal federalism addresses the vertical structure of the public sector", as well as "explores the roles of the different levels of government" and this includes their relationship through such instruments as inter-governmental grants. Similarly, for Freinkman (2008: 153), fiscal federalism "defines the core rules for resource allocation, distribution of responsibilities for service delivery, and mechanisms for interaction between different tiers of government". Thus, fiscal federalism basically refers to the allocation of tax/revenue powers and expenditure responsibilities or the sharing of a federation's fiscal resources among the different tiers of government that make up the federation. It is typified by fiscal relations between the national and the sub-national governments. As Babalola (2019: 81) argued, a fiscal system should ensure that the sharing of revenue between the federal and state governments corresponds with the distribution of constitutional functions.

Scholars have noted that two factors usually influence the distribution of responsibilities in a federation: the benefits from collective action; and economies of scale (Anderson 2010: 9-18; Ekpo 2006: 210; Galadima 2008: 57-58). Thus, the federal government should be assigned those functions that benefit the whole national population, and those of local nature should be assigned to state and local governments. In other words, the federal government should provide such goods and services as policing and defence, because these benefits every citizen in the country. Managing fiscal relations is a daunting task, especially in a resource-rich federation such as Nigeria. Since no single fiscal theory has yet been developed to manage fiscal relations, federations put in place mechanisms deemed suitable to their circumstances. In Nigeria, an independent fiscal body, the National Revenue Mobilisation, Allocation and Fiscal Commission (NRMAFC), established in 1989, reviews the revenue-sharing formula and also advises the presidency on the sharing of national revenues deposited in a general distributable pool called the Federation Account.

Fiscal federalism or simply, the fiscal relationship among the levels of government can be explained using three theories – the theory of "fiscal location" which is concerned with the functions expected to be performed by each level of government, the theory of "inter-jurisdictional co-operation" which refers to areas of shared responsibility by different levels of government, and the theory of "multi-jurisdictional community" where each jurisdiction provides public services whose benefit will accrue to people within its boundaries. However, the central challenge of fiscal federalism in Nigeria lies in the equity of the fiscal expenditure assignment and revenue raising functions of the three tiers of government (Babalola, 2019: 88-92). In Nigeria, fiscal responsibility and revenue powers are considerably centralised, wherein, the states and local governments are left with meagre sources.

So, of what relevance is fiscal federalism? According to Watts (2003: 2), the significance of fiscal federalism in any federation derives from the fact that, financial resources:

> "Play a large part in determining the relative political and economic roles and influence of the different governments within the polity; are a major means for facilitating flexibility and adjustment; and shape public attitudes about the costs and benefits of the activities of different governments".

Moreover, a federation's revenue allocation system is typically designed to achieve a balanced federation in which components of the federation get relative treatment. This is not the case in Nigeria where state governments experience perpetual fiscal gap and compellingly depend on the federal government for sustenance. As Ekpo (2006) argued, fiscal federalism in Nigeria has emanated from historical, economic, political, geographical, cultural and social factors. It is, therefore, the interplay of these factors that constantly generates the dynamics which characterise the practice of fiscal federalism in the country.

Resource Curse

Notable scholars have argued that there exists an inverse relationship between natural resources and economic development (Auty, 1993; Sachs & Warner, 1997; Ross, 1999). For these scholars, resource wealth is a curse and not a blessing. The concept of "resource curse" was developed in 1993 by an economic geographer, Richard Auty to describe the idea that the abundance of natural resources is indeed a curse rather than a blessing to a country. For Auty (1993:1) "resource curse is the phenomenon of worse economic performance in resource-abundant countries compared to resource-poor countries". In other words, resource curse means that the abundance of natural resources by a particular country may not necessarily translate into economic success.

For Ross (1999), the negative correlation between resource wealth and economic growth is rooted in the following: firstly, resource exporters often experience a fall in terms of trade for primary commodities, which widens the gap between primary commodity exporters and the rich industrialised states; secondly, the instability of international commodity markets does have negative impacts on domestic economies; thirdly, countries endowed with abundant natural resources tend to neglect other sectors; fourthly, there exist poor economic linkages between resource and non-resource sectors of the economy; fifthly, resource abundance causes policymakers to become irrational and short-sighted, and consequently make poor decisions; sixthly, resource state booms have a tendency to weaken state institutions; and seventhly, abundant natural resources tend to enrich state officeholders, who favour policies that are antithetical to growth (pp. 298-309). Following from the above, resource curse may be described as a phenomenon associated with resource-rich countries with poor developmental outcomes. The afore-stated political and economic explanations underpinning resource curse profoundly captures the paradoxical scenario where resource-abundant countries like Nigeria, Sudan, Angola, Democratic Republic of Congo (DRC), Venezuela, and similar countries continuously experience low economic development.

However, this is in contrast to the earlier belief that countries blessed with natural resources such as oil fossil, etc can base their economic growth and design their path to national development and global relevance based on such resources (Innis, 1954: 1; Baldwin, 1956: 161). Nigeria falls within the thesis of "resource curse" countries as observed by later economists where there exists an inverse association between natural resources and economic development. Nigeria further falls into a specific description of "oil curse" (Karl, 2005; Ross, 2011), where, the heavy reliance of its economy on oil over the years fails to induce economic growth and national development. Generally, studies by Karl (1999), Herbst (2000) and Fearon (2005) show that the "institutional weaknesses" that afflict resource-plenty countries like Nigeria are attributed to the “rentier effect” that fuels mal-administration and corruption by political elites who manipulate the politico-administrative processes for selfish gains.

These postulations on the resource curse thesis have, however, been challenged on the basis of some “methodological flaws and neglect of stabilising aspects of resource endowment" (Obi, 2010: 488-489). Obi (2010) contends that initial "position simplifies what is, in reality, a far more complex relationship that is neither inevitable nor normal”. Other scholars also draw a link between natural resources and violent conflicts, where resource-dependent countries are more likely to experience internal instability and violent conflicts than non-resource countries (Collier, 2008; Le Billion, 2001; Mahler, 2010). Obi (2010), however, observes the influence of powerful “extractive transnational forces” and the devious collusion between these forces and local political elites. These forces combine to subordinate African resources to global capitalist interest to the neglect of local interests. Summing up, Obi (2010) argued that oil as a commodity is not the curse, it is rather “cursed” by the high premium placed on it by the globalized capitalist forces.

There is no denying that oil is a blessing to Nigeria as it constitutes the main source of the country’s wealth, financing governments’ developmental projects at all levels. However, it is more of a curse than a blessing to the generality of Nigerians whose lives are trapped in a social relation that benefits successive political elites and the transnational capitalist forces (this relationship has been ongoing for the past five decades). These are evidenced in the Niger Delta protests which is rather a consequence of “unfair” distribution of oil benefits; and the demand for better conditions of living by Nigerians. All point to the failure of successive governments to develop sectoral-linkages, diversify the economy and midwife economic development through oil wealth. In turn, these forces continue to exacerbate a lack of confidence in the oil-centric political economy, thereby, given rise to a flawed federal system.

3. Nigeria’s fiscal federalism in perspective

Revenue allocation: Justification and Principles

In Nigeria, the central government is required by law to collect revenue and then share same between itself and the state governments according to some agreed formula and principles. The federal government collects import and export duties, corporation tax, value-added tax (VAT), excise duties, mining rents and royalties, petroleum profit tax, and personal income tax from the armed forces, police and residents of the Federal Capital Territory (FCT) and the proceeds from these taxes are shared with the states (Babalola, 2019: 91). The state and local governments keep their internally generated revenues, which are typically less lucrative and not adequate to match their constitutional responsibilities. Hence, their perpetual reliance on the federal government. This dependence is at the heart of intergovernmental fiscal relations in the country.

Nigeria has consistently assigned the most lucrative sources of revenue to the federal government. Generally, federal governments are empowered to collect corporation tax, for example, because, as Anderson (2010: 35) argued, the administrative complexity of dealing with corporations that operate in many parts of the federation further strengthens the case for centralised, or strongly harmonised, design and administration of corporate taxes. Likewise, historically, the federal government in Nigeria has always collected customs and excise. According to Awa (1976: 65), the reasons for this are both political and economic.

> From the political point of view, it is clear that if the units were allowed to impose and collect the customs and excise duties, they might do so at differential rates and create the impression of having sovereign status vis-à-vis the position of the central government. The union might look more like a confederation than a federation. From the economic point of view, there is firstly a desire to ensure a uniform rate of customs and excise duties and a free flow of commodities among the units. There is secondly, an attempt to place in the hands of the federal government a reliable source of revenue so that it can, without too much difficulty, meet the demands of preserving the territorial integrity of the federation and the internal constitutional order.

One reason for allocating the lucrative sources of revenue to the federal government is what Babalola (2019: 88) referred to as 'administrative efficiency'. What this means is that taxing powers are assigned to the tier of government most likely to administer them efficiently. Another reason for a financial arrangement of this nature is that it has been accepted by both the centre and the constituent units that the central government deserves the most lucrative sources of revenue. This argument is predicated upon the assumption that the functions assigned to the federal government require more funds than those assigned to the states. This assumption is, however, untenable as such subjects as healthcare and education also assigned to the state governments require a lot of funding as well.

As Babalola (2019: 86) argued, if the national economy is to operate at its optimum level, and if the federation is to avoid instability, the central government must deal with the fiscal imbalance in any state of the federation. Fiscal imbalance in one state may have a contagious effect on others. For the purpose of horizontal revenue sharing, the revenue allocation system has adopted the principles of ‘derivation', ‘need', ‘equality of state', and ‘population' to mention a few. The principle of derivation requires the federal government to return to the state governments the total, or a proportion, of the revenue generated from that state to provide a net benefit for the people of that state (Anderson, 2010: 54). The principle of ‘need' allows for the allocation of revenues in relation to the needs of the people in each state, irrespective of their contribution to total national revenues. This principle is tied to that of ‘population’ in the sense that population is used as an index of need. In other words, the more the population of a state, the more that state gets in revenue from the federation account. The principle of ‘equality of states’ is based upon the federal principle that all states of the federation are equal.

Having highlighted the various revenue sharing principles and the rationale underpinning the allocation to various tiers of government, we now turn our attention to how they have been applied so far.

Inter-governmental fiscal relations

The story of federalism in Nigeria effectively began in 1954 with the adoption of the Federal Constitution. However, the decentralisation of the country’s administration began under the unitary Richards Constitution of 1946, which signalled the birth of fiscal federalism in Nigeria through the Sydney Phillipson fiscal Commission. For horizontal allocation to the then three Regional governments (Northern, Western and Eastern Regions), the Commission applied the principles of derivation and even progress to share the national revenue as follows: Northern Region: 46%; Western Region: 30%; and Eastern Region: 24% (Ashwe, 1986: 28). Moreover, the central government was allocated the lion’s share of the revenue. The Phillipson’s fiscal scheme generated serious acrimony among the Regions with the Northern elite alleging that what was allocated to the Northern Region was less than it contributed to the central revenue and that the Eastern Region was being developed at the expense of the Northern Region. Western Regional elite similarly alleged that their region received slightly less than its contribution to the central revenue account (May, 1969: 135). Ironically, the same Constitution that sought to promote the unity of the country ended up sowing the seed of future acrimonious intergovernmental relations. The revenue allocation system has since witnessed some changes. What has been constant, however, is the assignment of the greater share of national revenue to the central government.

The practice of allocating more revenue to the centre was carried forward to the post-independence period. For example, the Technical Committee on Revenue Allocation appointed by the military administration of Olusegun Obasanjo (1976 -79) and chaired by Professor Ojetunji Aboyade recommended that the contents of the newly established Federation Account be shared vertically between federal, state and local governments in the proportions of 57%, 30%, and 10% respectively, and 3% as special grants for the mineral producing areas (Ashwe, 1986: 35). The Committee's horizontal sharing paid no attention to derivation thus, incurring the wrath of the oil-producing states. Similarly, the Babangida administration (1985-93) established National Revenue Mobilisation, Allocation and Fiscal Commission (NRMAFC), which recommended a vertical sharing order as follows: Federal Government to receive 47%; State Governments: 30%; Local Governments: 15%; and Special Funds: 8% (Elaigwu, 2007: 243). This recommendation was not acceptable to the Federal Military Government (FMG), and it increased its share from 47% to 50%, but state and local governments' shares remained unchanged. Special Funds were also reduced from 8% to 5%. The year 1992 also witnessed another fiscal adjustment which brought about a decrease in the federal government's share of centrally-collected revenue from 50% to 48.5%, and a reduction in the states' allocation from 30% to 24%, and an increase in local governments share from 15% to 20% (Elaigwu, 2007: 245). The local governments were the winners in the new scheme because they were provided with more funds to take care of their expanded constitutional responsibilities now covering such areas as primary education and primary health care. This fiscal arrangement was in operation till 1999 when Nigeria returned to civilian rule after long years of military rule.

The current 1999 Constitution provides for a vertical sharing of 48.50%, 24%, 20%, and 7.50% to the federal, states, local governments, and centrally controlled special funds, respectively. This sharing formula, no doubt, ensures federal dominance, particularly in fiscal matters. Moreover, the arrangement, which places mineral resources within the exclusive legislative list, also allows the federal government to have the lion's share of the Federation Account. It is therefore not difficult to see why the state and local governments continually depend on the centre.

The principle of derivation is central to the current revenue allocation system. According to Section 162(2) of the 1999 Constitution, "the principle of derivation shall be constantly reflected in any approved formula as being not less than thirteen per cent (13%) of the revenue accruing to the Federation Account directly from any natural resources." In other words, the oil-producing states are entitled to 13% of the centrally-generated oil revenue. Derivation has ignited the most controversy in the history of revenue sharing in Nigeria. For example, between 1946 and 1951, the derivation was 50% while the 1953 fiscal scheme provided for 100%. Governments of the defunct Northern and Western Regions favoured derivation when their respective commodities such as groundnuts and cocoa, were experiencing a boom in the global market but opposed the principle when oil was found in the Eastern Region. Similarly, the Eastern Region that opposed derivation when its main export commodity, palm produce declined became a supporter of the principle. The principle was, however, relegated when oil revenue became the mainstay of the economy; a period that coincided with military rule. This was to the advantage of the federal centre. There has been a continuous de-emphasis of the derivation principle from 1970 to 1999. In 1970, it was put at 25% and by the end of military rule in 1999 it came down to 3% (Babalola, 2014: 121). The application of derivation has always generated controversy. For example, while the oil-producing states clamour for the full implementation of the principle, those opposed to the campaign argued that absolute derivation will diminish the financial strength of the federal government.

TABLE 1: REVENUE ALLOCATION IN NIGERIA, 1946-1999

Year	Commission/ Committee	Principles & Horizontal Allocation	Vertical Allocation Formula
1946	Phillipson	i. Derivation ii. Even progress	Northern Region: 46% Western Region: 30% Eastern Region: 24%
1951	Hicks Phillipson	i. Derivation ii. Needs iii. National interest iv. Fiscal autonomy	Northern Region: 38% Western Region: 27.2% Eastern Region: 34.8%
1953	Chick	i. Derivation ii. Fiscal autonomy	Northern Region: 38% Western Region: 27.2% Eastern Region: 34.8% Southern Cameroon 1%
1958	Raisman	i. Derivation ii. Fiscal autonomy iii. Balanced development	Northern Region: 40% Western Region: 24% Eastern Region: 31% Southern Cameroon 5%

1964	Binns	i. Derivation ii. Fiscal autonomy iii. Balanced development	Northern Region: 42% Western Region: 20% Eastern Region: 30% Mid-Western Region 8%
1977	Aboyade	Equality of access 25%; National minimum standard: 22% Absorptive capacity: 20% Independent revenue 18% Fiscal efficiency: 15%	Federal Govt. 57% State Govts. 30% Local Govts. 10% Special Grants Account 3%
1980	Okigbo	Minimum responsibility of govt. 40% Population: 40% Social development factor 15% Internal revenue effort: 5%	Federal Govt. 53% State Govts. 30% Local Govts. 10% Special Fund 7%
1981	1981 Act	Equality of State: 40% Population: 40% Social development factor 15% Internal Revenue 5%	Federal Govt. 55% State Govts. 30.5% Local Govts. 10% Ecological Problem 1% Devt. of mineral producing areas 1.5% Derivation 2%
1989	RMAFC (Danjuma)	Equality of State: 40% Population: 30% Social development factor 10% Internal Revenue 20%	Federal Govt. 47% State Govts. 30% Local Govts. 15% FCT: 1% Stabilisation: 0.5% Savings: 2.0% Derivation 2% Devt. of mineral producing areas 1.5% Devt. of non-oil producing areas 0.5% General Ecology: 0.5%
1990	RMAFC	Equality of State: 40% Population: 30% Social development 10% Landmass 10% Internal Revenue 10%	Federal Govt. 50% State Govts. 30% Local Govts. 15% FCT: 1% Stabilisation: 0.5% Derivation 1% Devt. of oil-mineral producing areas 1.5% General Ecology: 0.5%
1992	RMAFC	Equality of State: 40% Population: 30% Social development 10% Landmass 10% Internal Revenue 10%	Federal Govt. 48.5% State Govts. 24% Local Govts. 20% FCT: 1% Stabilisation: 0.5% Derivation 1% Devt. of oil-mineral producing areas 3% General Ecology 2%
1999	RMAFC	Equality of State: 40% Population: 30% Social development 10% Landmass 10% Internal Revenue 10%	Federal Govt. 48.5% State Govts. 24% Local Govts. 20% Special Funds 7.50%

Source: Various Revenue Allocation Commission Reports (1946-1999)

4. Resource curse and the dilemma of fiscal federalism

As mentioned earlier, Nigeria exemplifies a country afflicted with resource curse. The discovery of oil in the hitherto agrarian economy gave birth to an oil-centric economy. Contemporary Nigeria's economic fortunes now revolve around the production and sale of oil. According to Rimmer (1978), oil changed Nigeria from a country exporting diverse primary products into what is sometimes called a monoculture, with over 90 per cent of export earnings contributed by this one commodity. Recent research also shows that oil accounts for about 95 per cent of Nigeria's total foreign exchange earnings and generates over 40 per cent of the country's Gross Domestic Product (GDP) (Ejobowah: 2010: 265).

Nigeria is one of the most oil-dependent countries in the world. This dependence effectively goes back to the global oil boom of 1973, when Nigeria and other oil-exporting countries witnessed a boom in oil revenue. The country's political and economic fate has since then been inextricably linked to oil. Nigeria has other sources of revenue like corporation tax, value-added tax (VAT) and personal income tax, but oil revenue is the dominant source of the country's wealth. Oil has played a dominant role in the economy over the years accounting for more than 85% of the country's foreign exchange earnings. It also provides the fiscal basis of the country as annual budgets at all levels of government are predicated upon the projected annual production and the price of crude oil in the international oil market.

Despite the huge inflow of oil revenue into the economy, Nigeria is still one of the under-performing countries in the world and state governments continue to experience fiscal imbalance. The injection of funds into an economy tends to lead to an increase in national income, which expectedly leads to an increase in domestic demand and supply, but the opposite is the case in Nigeria. Since Nigeria's economy thrives on oil rents, domestic production becomes insignificant. Oil-generated revenue is not ploughed back into productive economic activities but spent either on foreign manufactured commodities or diverted into private use by state officials. This clearly explains why Nigeria has been described as a country characterised by "Want in the midst of plenty" (ICG, 2006).

As explained earlier, there is a link between a federation's political economy and how the overall federal system is operated. Nigeria's oil-driven economy is intrinsically linked to the fiscal system. As we have shown, the oil boom of the early 1970s contributed to the highly centralised character of the federal system. It also increased the centrality of oil in the country's revenue allocation system. As Babalola (2019: 71) argued, as oil rents flow into the national revenue pot, the government at the centre continues to be centralised, and consequently, the states continue to be financially dependent on the federal centre. There is also an inseparable link between oil resources and politics. Rather than spur economic growth and national development, oil becomes a ready means of politico-economic control and source of primitive wealth accumulation by the political elites. The country's political leaders have failed to utilise the enormous oil proceeds to build a viable economic base to sustain the growing population (Okafor, 2016: 22). The country is currently facing a development crisis with severe attendant socio-economic implications of low economic growth, high poverty rate and unemployment. This scenario of poverty in the midst of resource plenty has contributed to the current agitations for the implementation of true fiscal federalism in the country.

Since oil-generated revenue is exclusively concentrated at the centre, the state and local governments are left with no option but to solicit for handouts from the centre. Rather than for the different tiers of government to financially co-ordinate with each other, the state and local governments are dependent on the federal government. State governments, for example, generate revenue from personal income tax and other sources while local governments generate revenue from liquor sales, birth and death registrations, environmental violations and fines, motor parking dues, and market stalls dues. These sources are many but they are usually inadequate to match the sub-national governments' assigned functions.

Of course, the state governments' inability to secure the lion's share of the contents of the Federation Account is not solely responsible for their failure to meet their constitutional responsibilities but this is a contributing factor. The lack of fiscal capacity for service delivery may also be found in the systemic corruption that pervades state governments. With massive oil wealth, rent-seeking becomes a culture in the country. Oil rents provide some form of opportunities for the governing elite who compete among themselves for control of the states and its resources. In Nigeria, politicians see office holding as an opportunity for phenomenal illicit gain. For example, owing to the implementation of the derivation principle in the current democratic dispensation, the oil-producing states have witnessed a dramatic surge in federal transfer. However, as Babalola (2014) who expounds the corruption-underdevelopment nexus in the Niger Delta region argued, the systemic corruption among regional leaders have eroded the supposed gains from the oil economy. There is a persisting poor condition of living in the area and basic social services such as education and health are grossly underfunded.

It is obvious that the states are not comfortable with the dominance of the central government in fiscal distribution. Many of them are not economically viable and cannot survive without constant federal handouts. As mentioned earlier, their annual internally generated revenue (IGR) is usually low, yet, there is no appreciable response from them. The monthly regular handouts from the centre have contributed to the culture of indolence among political leaders at the state level. This has, in turn, contributed to the excessive pressure on the Federation Account. Nevertheless, mention must be made of some states' efforts to bolster their IGR. For example, the Lagos state government's partnership with the Kebbi state government to boost rice production (Lake Rice) is a positive response. Kebbi is endowed with vast arable land suitable for rice production while Lagos has the needed financial and industrial capacity to facilitate the production process. This partnership has not only improved the food security situation in both states, but it has also created jobs and increased the two states' IGR. Ebonyi state too has also revitalised its moribund rice production plant at Abakaliki. Likewise, in a bid to boost the state's economy, the Osun state government has also revived its cocoa processing plant at Ede. These positive responses are worthy of emulation by other states to bolster their income and economy as against the persisting ugly trend of continuously looking unto the centre.

5. Conclusion

This paper has shown that the negative relationship between Nigeria's colossal oil wealth and poor economic performance explains why oil is a curse to the oil-rich federation and a source of despondency to the people who are constantly wallowing in poverty. Nigeria's over-dependence on oil has contributed to the curse. The vulnerability of the domestic economy to price fluctuations in the international oil market is not in question. Whenever oil revenue declines so do Nigeria's government expenditure. For instance, the global oil price crash of the 1980s resulted in economic hardship in oil exporting countries, including Nigeria. Similarly, the drastic reduction in oil price from about $100 in 2013-2014 to $40 in the first half of 2015 created a big upset in the national budget and subsequent public expenditure, which in turn led to economic recession.

Nigeria's over-dependence on oil is one of the causes of the states' lack of economic viability. Therefore, the country's fiscal federalism should emphasise revenue generation rather than revenue distribution, as this will ensure the fiscal viability of the states. The current practice in which states rely almost solely on the centre, even for their recurrent expenditure is antithetical to economic growth. Dependence on the Federation Account will continue until the states develop their own independent revenue sources. One way to do this is to revive the agricultural sector at all levels. In the immediate post-independence period, for example, agriculture constituted the country's economic backbone but the unprecedented flow of oil rents caused agricultural products to become less profitable. It is on record that Nigeria's agricultural products in 1962 accounted for about 70 per cent of the total export value, but by 1974, a year after the oil boom, agriculture's share of total export earnings had dropped to less than 20 per cent, whereas petroleum's share of the total earnings accounted for only 10 per cent of export earnings in 1962, but rose to 82.7 per cent in 1973 (Bangura *et al*., 1986: 177). Also, according to the GTI Research Report (2015: 10), in the 1960's, agriculture contributed up to 64% to the total GDP but gradually declined in the 70's to 48% and the trend continued in 1980 to 20% and 19% in 1985 as a result of the oil boom of the1970's. It is thus, clear from these statistics that the performance of the agricultural sector and specifically the export potential of these cash crops took a downward movement with the oil boom of the 1970s.

Moreover, the culture of fiscal dependence in which the states depend heavily on centrally-collected revenues, no doubt negatively affects the states' internally generated revenue. Considering the functions expected to be performed by the state governments, the existing vertical sharing formula needs to be reviewed to ensure that the federal government's share of the Federation Account is reduced and that of the states is increased. Another means through which the states' revenue may be enhanced is by increasing the current 13% derivation. It must, however, be argued that, if the objective of fiscal federalism is to achieve a balanced federation and national economic growth, then absolute derivation, which has the tendency to exacerbate regional fiscal disparity, may not be feasible. That said, an upward review of the existing formula may be considered as this will enhance the financial strength of the oil-producing states.

The fiscal system also needs reviewing in such a way that oil revenue is used to generate some linkages in the economy. In Nigeria, the economic linkage between oil production and the domestic economy is very insignificant. The inflow of oil-generated funds into the economy has not translated into high national income because these funds are not ploughed back into economic activities. Rather than invest these funds in the manufacturing sector, for example, policymakers spend them on importation, consequently constituting a leakage from the economy. As Babalola (2019: 68) observed, another explanation for this lack of linkage-effect is that resources are often extracted by foreign investors, who repatriate their profits to their home countries rather than invest in the economy where the profits were made. Therefore, such a sector as mining needs to be regulated to the benefit of the national economy.

Finally, if the states are to be self-financing, if they are to enjoy some measure of fiscal autonomy, the fiscal system has to be decentralised in such a way that the states have relative control over their resources. Decentralisation of economic resources will ultimately reduce their dependence on the federal government. As presently constituted, Nigeria's federal centre is overloaded. In addition to the above "prescriptions", governments at all levels must maintain disciplined fiscal policies.

Biographical Notes

Dele Babalola is senior lecturer in the Department of International Relations and Diplomacy at Baze University, Nigeria. He formerly taught at the School of Politics and International Relations, University of Kent, UK. He holds a PhD in Politics and Government from the University of Kent, United Kingdom. He is the author of *The Political Economy of Federalism in Nigeria* (Palgrave Macmillan, 2019) and co-editor of *Nigeria, a Country under Siege: Issues of Conflict and its Management* (with H. Onapajo, Cambridge Scholars Publishing, 2018). He researches in the areas of federalism, ethnicity, democracy and elections, conflict and terrorism.

Chukwuemeka Okafor is senior lecturer in the Department of Government and Public Administration, Baze University, Abuja, Nigeria. He also serves as a research fellow in the School of Government and Public Administration, University of Fort Hare, South Africa (2016-2019). He holds a Doctoral Degree in Public Administration from the University of Fort Hare, South Africa, with emphasis on public policy analysis. His research interests include public sector governance, public policy analysis, public policy monitoring and evaluation, local government administration. He has published in recognized local and international learned journals.

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