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Fiscal Federalism and Nigeria’s Development: Comparative Perspectives from Canadian Fiscal Federalism

Ekanade Olumide

This paper evaluates the historical dynamics that have shaped the development of fiscal federalism in Nigeria and Canada over the years. It contends that certain contradictions have inhibited the efficient and equitable allocation of tax powers and expenditure responsibilities in Nigeria. These include Nigeria’s defective federal structure, military rule, Presidential federalism, politicized sharing principles, and the parochial political culture. These absurdities now threaten the stability of the Nigerian federation. The paper submits that the Canadian Federation offers a viable option for renewal with principles such as autonomy of sub national units, the predominance of the civic culture, scientific equalization, and dependence of intergovernmental relations on mutual convenience rather than on statutes.

Introduction

“...There is and can be no final solution to the allocation of financial resources in a federal system. There can only be adjustments and re-allocations in the light of changing conditions: what a federal government needs therefore is machinery adequate to make these adjustments” Kenneth C. Wheare (Oates, 1972, p.65).

Though this seems to be an apt description of the practice of fiscal federalism in both developed and developing nations, its actual practice differs from country to country depending on its historical evolution. Federalism is therefore not a static concept. Like any other political institution, it is subject to evolution.

This paper comparatively examines the evolution and practice of fiscal federalism in Nigeria and Canada while it also identifies lessons for the Nigerian state. Nigerian and Canadian federations are both large and multi-cultural societies engaged in the great effort to construct national unity on the basis of their federal constitutions. For Canada, having survived till date the turbulent periods in its evolution as a federation, its practice of federalism seems to have stood the test of time. Fiscal problems that arose within the Canadian federation have provided a framework within which important principles have been
developed and tested. These principles can therefore contribute a great deal to the understanding of related issues and solving problems in other federal systems. An emergent federation like Nigeria can learn valuable lessons from the older Canadian federation. The unraveling of these enduring principles is the corpus of this study.

The History

Nigeria is a federal country with a constitutional division of powers and functions among the central, state, and local governments. Federalism was formally adopted in Nigeria in 1954 (Adebayo, 1993, p. 19) under the Lyttelton constitution when the country was restructured into three quasi self-governing and administered regions. Before 1954, the Nigerian state was administered by the British colonial power largely as a unitary state. The colonial power adopted federalism for Nigeria as a structural response to the centrifugal tendencies inherent in Nigeria's pluralistic society and secondly as a mechanism needed to manage the diverse functions which a modern government is expected to perform. Some of these functions could be more efficiently handled at lower levels such as states and local governments. Consequently the successive federal regimes have had to set up fiscal commissions at various intervals to handle multi-level government financing and deal with the counterpart issues of intergovernmental fiscal relations so that each tier of government in the Nigerian federation would have adequate resources to discharge assigned functions. Till date, Nigeria has had four ad-hoc colonial fiscal commissions, three post-colonial ad-hoc commissions, and one permanent fiscal commission known as Revenue Mobilization Allocation and Fiscal Commission (RMAFC) (Olomola, 1999, pp. 488–490).

Structural Crisis, Trials and Travails of Nigeria's Fiscal Federalism: Historical Overview

The problem of revenue distribution has been a structural challenge with Nigeria from inception. In the colonial era even though equity was not at the epicenter of Nigeria's fiscal federalism, the principles for the apportionment of national revenues evolved by the colonial commissions emphasized national integration, fiscal efficiency, and cohesion. These principles ironically bred interregional disunity as much as it accelerated uneven development. Much more
importantly, the colonial tactics of divide and rule made revenue allocation challenge a winner take all affair, i.e., new formula always favored the critic.

Cumulatively, this stress and strain exerted on the polity by the regional elites at the period weakened the Nigerian state (as evidenced in the post-colonial era) and made the revenue sharing issue an unsettled affair in financial administration in Nigeria.

Nigeria became a self governing entity on October 1, 1960. The independence and republican constitutions dictated the tone and tenor of financial relations; however, inequity pervaded all facets of financial administration in Nigeria both vertically and horizontally. The authoritative allocation of funds among the regions was hampered by the intervention of regionalism. This engendered unhealthy ethnic competition for scarce federal economic resources. Given the appropriation of federal power by the Northern Peoples Congress (NPC) between 1960 and 1966, the party used political power in its possession to mobilize and divert federal revenues, infrastructure, and federal patronage to her ethnic homeland. This scenario engendered hostility against the ruling party and its hegemonist tendency. This remotely was one of the underlying causes of the crisis that engulfed the Nigerian state and led to political instability and eventually the demise of the first republic in 1966 (Ekanade, 2008, p. 143).


With the inception of military rule in Nigeria in 1966 there was a paradigm shift in financial administration in Nigeria. Nigeria’s federal finance moved from fiscal federalism to fiscal centralism. Here the successive military regimes used decrees to centralize the collection and control of buoyant and robust sources of the national revenues. The military also created extra statutory accounts and employed highly politicized principles of population and inter-state equity to redistribute funds at the expense of more rational principles of derivation and internal revenue generation effort. The implications of these are that the actions feathered the nests of the military ruling class and in addition disproportionately shifted revenues from the oil rich minority southern states to the less productive northern states of Nigeria, most of which coincidentally produced these military rulers. This process has legitimized the warped and iniquitous nature of Nigerian
federal finance. Consequently, agitations for reform and even secession have been endemic in the resource rich states and these now threaten the integrity and very survival of the Nigerian federation. To this extent, the necessity for reforms is emphasized and the Canadian model offers a viable and credible option for Nigeria.

**Evolution of the Canadian Federation**

Canada is the second largest country by area in the world (Calvocorressi, 2001, p. 767). It is a federal country that practices parliamentary democracy. It has the Governor General (representing the Queen of England) at the federal level and a Lieutenant General at the provincial level.

Canada is the product of the 1867 union of four colonies in British North America – Nova Scotia, New Brunswick, Quebec, and Ontario. It was born out of a necessity for survival. Six other provinces subsequently joined Canada, Manitoba in 1870, British Colombia in 1871, Prince Edward Island in 1873, Saskatchewan and Alberta in 1905, and Newfoundland in 1949 (McLean, 2003, p. 3) In addition there were three Northern territories; Yukon, the Northwest territories and Nunavut, carved out of the Northwest territories in 1999 (Dare, 2003, p.103). The Canadian Union thus evolved through a process of aggregation and further developed and expanded through the process of further incorporation of new provinces. The aforementioned ten provinces are the basic units of the Canadian federation (Leach, 1984, p.10). The two largest provinces are Ontario and Quebec containing more than half of Canada’s population between them (McLean, 2003, p. 10).

The Canadian federation is often referred to as a pact among the provinces with emphasis on the fact that the “British North American Act” (BNA) embodied a compromise under which the original provinces agreed to federate. In other words, the authority and powers of the provincial government do not flow from the central government. On the contrary it is the central government which owes its very existence and survival to the willing consent of the provinces as the provinces predated the federal government (Dare, 2003, p. 98).

Canada’s experience differs considerably from that of Nigeria. In Nigeria it is the states that owe their existence and survival to the consent of the central government. This is because the states were created by the central government, and thus creating the states’ inability to assert their autonomy. To this extent one
can affirm that Canadian federalism is aggregative while Nigeria's federalism is disaggregative.

**Constitutional Status of the Federal–Provincial (State) Governments**

The Canadian federal government and the 10 provincial governments are recognized and independent of each other. There is really no hierarchical relationship between the two orders of government (Boadway & Watts, 2004, p. 3).

The BNA of 1867 is silent on intergovernmental fiscal matters, except that sections 114-117 set out liabilities of Canada and the provinces for their public debts at confederation. Section 118 provided for grants-in-aid from Canada to the provincial governments of Ontario, Quebec, Nova Scotia, and New Brunswick (the original federation). Section 92 of the 1867 Act gave the provinces power over the management and sale of the public lands in the provinces and of the timber and wood thereon. The 1867 BNA in 1982 was renamed Constitution Act, 1867. Thus in 1982, section 92A was added to the 1867 Act and it broadened provincial authority over natural resources (McLean, 2003, p. 2).

Thus under the Canadian constitution, the provincial governments own and control land and natural resources including minerals and are entitled to royalties from their exploitation (Esman, 1984, p. 33). This contrasts with the Nigerian arrangement where constitutionally, the ownership and control of land and natural resources has shifted over time from the states to the federal government. This shift was due mainly to the intervention of the military in the nation's political process. More so, the unitary nature of the military necessitated the centralization of the nation's resources (Asobie, 2001, p. 151). This approach has denied states the much needed autonomy in financial matters which has in turn inhibited the development of healthy intergovernmental fiscal relations.

Furthermore, resolution 35(3) of the 1982 Canadian constitution stated that parliament and the government of Canada were committed to the principle of making equalization payments to the provinces. This was to ensure that provinces would have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation (Smiley, 1984, p. 43) for all Canadian citizens. This system was designed so because Canada is geographically large with widely differing natural resource endowments and a socially diverse population (Litvack, 1994, p. 231). The Nigerian state too at a
period adopted the equalization principle because of the variations in resource endowments among the constituent units. However, the equalization method in Nigeria is not as developed as that of Canada. The equalization principle in Nigeria does not take into account states’ needs and absorptive capacity. Moreover, the derivation component in Nigeria's revenue sharing formula has overshadowed whatever equity impact the equalization formula (equality of states) was supposed to have (Ayoade, personal communication, 2006). To this extent, the Nigerian central government was not able to provide reasonably comparable levels of public services at reasonably comparable levels of taxation for all Nigerian citizens. In this regard also, the fact that the Nigerian state does not have a highly developed tax culture has hindered the central government from performing its functions effectively.

It is interesting to note that one fundamental change initiated with the repatriation of the Canadian constitution in 1982 (Constitution Act 1867) reflected strongly in intergovernmental financial relations. Here, the provinces were given limited powers of taxation. Section 92 of the Act confined provinces to only “direct taxation” in order to raise revenue for provincial purposes. Unlike the provinces, the federal government got very wide and exclusive taxing powers. Section 91 of the same Act states that the federal government may raise revenue by any mode or system of taxation; this may include direct and indirect taxation. The section also gave to the federal government all residual legislative and regulatory powers that are not assigned to the provinces. This has allowed the federal government to significantly expand its de-facto policy jurisdiction (Boadway & Watts, 2004, p. 14). In addition, the courts have supported a broad interpretation of the federal government’s revenue raising and expenditure powers and have consequently upheld the federal government’s right to spend its own source revenue in areas of both concurrent and exclusive provincial jurisdiction (Boadway & Watts, 2004, p. 6). To this extent, the structural differences between Nigeria and Canada (in terms of financial power relations involving the two tiers of government) are quite modest. In Nigeria, though the federal government is much more influential than the federating units in the allocation of tax powers, expenditure responsibilities, and jurisdictional powers between them.

In Canada, intergovernmental fiscal arrangements have depended more on convention and mutual convenience than on statute. This is because the fusion of responsibilities of the parliament (Ronald, 1987, p. 782), federal legislature and
provincial governments did not commit any harm to anything justifiable (McLean, 2003, p. 3). Thus the federal provincial conference has been the main arena for bargaining for the control of public revenues between the federal government and provinces (Esman, 1984, p. 33). The conference is a non-constitutional forum and agreements struck there are incorporated into highly technical bills which are ratified with little scrutiny by both provincial and federal parliaments (Esman, 1984, p. 27).

This is possible in Canada because intergovernmental fiscal relations are not hierarchical, and it is the provinces that own and control resources. Replicating this in Nigeria would be difficult because of the hierarchical nature of federal-state relations. Constitutionally, it is the central government that controls the buoyant sources of the nation’s revenues (Constitution of Federal Republic of Nigeria, 1999, Sec. 66).

It is pertinent to note that under the Canadian constitution, the federal government of Canada also has authority to tax natural resources through the corporate income tax on oil and gas. Here, there is the provincial ownership of resources and federal regulation on the same resources. Ideally this is what the Nigerian federal government ought to do in the administration of the federation. The federal government should hand off the ownership of resources and use federal power to tax those resources. This could be an effective panacea for the unending crisis in the Niger Delta region of Nigeria.

The Problem of Allocation of Revenue and Expenditure Responsibilities

The basic problem that Canada encountered like other federations as early as the 1930s was the challenge of an imbalance between financial resources and functional responsibilities. Here the central government dominated the most productive and elastic tax sources while major functions of government were left to the provinces. To cope with this unevenness, Canada resorted to fiscal transfers (Esman, 1984, p. 31). The progression was such that the federal government gave conditional grants (which required counterpart provincial funding) to the provinces so as to ensure the attainment of overall national objectives. From 1967, the federal government introduced unconditional grants alongside equalization grants to the provinces (Smiley, 1972, pp. 44-45). The unconditional grants were to help provide financial assistance on a scale
sufficient to bring the yield of all provincial revenues from own sources up to the national average yield (Mathews, 1974, p. 27). The equalization grant was to help provinces raise revenue to provide public services at the same standard as those adopted by other provincial governments operating at the level of the recipient governments (Mathews, 1974, p. 3).

Equalization is the promotion of more equality in opportunities, status, income, wealth, and general well being among people, states, and provinces (Todaro, 1998, p. 690). Canada's federal finance as shown above has been very dynamic and responsive to countrywide welfare services.

In the Nigerian context, equality of states is roughly the equivalent of the equalization concept of Canada. There is, however, a major difference. The equality principle in Nigeria was and is still unresponsive and static with a permanent percentage weight allotted to it. It has not solved the problem of imbalance between revenue generation and expenditure responsibilities. This needs to be modified since equity itself should be perceived in elastic terms. The Nigerian government would need to develop a proper yardstick for resource equalization in order to assist resource--poor units. Using the three geo-zones standard as obtained in Australia (not too rich and not too poor state) could be used to arrive at a standard national average (McLean, 2003, p. 7) for revenue sharing. It then means that any zone whose revenues do not amount to the standard national average would be entitled to revenue equalization grants from the federal government. In this regard the central government would have used its power of macro-economic regulation and taxation to scoop excess revenue from the very rich zones through the instrumentality of taxation and redistribute the incomes to the resource poor zones. By this way the latter would be able to provide a comparable level of public services for their citizens similar to what is obtainable in other zones. This process of equalization acts as a moderating influence on the disparities that would have existed among federating units in terms of revenue generation and expenditure. Again, the sense of equity that the concept fosters in the federation can help to eliminate the threat of secession by any zone. As it stands, state equalization in Nigeria is determined more by the central government using its own criteria.

The Canadian formula for equalization interestingly took no account of differences in tax effort; the equalization grant only reflected differences in revenue raising capacity of provinces (Mathews, 1974a, p. 31). This is because it is possible for provinces to engage in sharp practices by not declaring their actual
They may do this so that they would not pay taxes commensurate to their profit to the federal government. Thus the federal government through the Federal Department of Finance examines provinces' revenue raising capacity and not their effort (declared revenue) to determine recipients of equalization grants (McLean, 2003, p. 7).

**Federal-Provincial Fiscal Relations in the National Energy Policy Challenge: A Study in Political Compromise**

In 1982 the Canadian government made its desire known that it would cut its payment to the provinces substantially. The government also indicated it would seek changes in the equalization formula and shift part of the costs of the program to the resource-rich provinces substantially. The government also indicated it would seek changes in the equalization and shift part of the costs of the program to the resource-rich province (Leach, 1984, p. 13). Several provinces opposed it but the federal government after failing in its negotiations with the provinces introduced the bill to the parliament, got the latter's approval, and proceeded unilaterally with the legislation (Leach, 1984, p. 13). The whole idea was to centralize economic and political authority in Canada with the instrumentation of National Energy Policy (NEP). The NEP was used to regulate the petroleum sector and it unilaterally imposed a price schedule that called for only marginal increments in the domestic prices of oil and natural gas (McLure, 1994, p. 216). This development enraged the energy rich Western provinces which became hostile towards the NEP and mobilized constitutionally against it. The major demands of the Westerners were adequate protection of regional interests in the national arena through the devolution of certain central powers to the provinces. The other demand was a constitutional safeguard that no national government would ever again impose an NEP type policy on the provinces (Lusztig, 1994, pp. 37-39). The federal government was indifferent in this regard. The NEP cost Alberta alone $60 billion in federal taxation and consumption subsidies while the federal share of petroleum revenues increased from 10% to 24% at the same period (Lusztig, 1994, p. 38). In the midst of all these happenings, the Westerners took proactive steps against the federal government. Alberta cut back on oil production, British Columbia withheld receipts from export tax on natural gas levied by the federal government and Saskatchewan challenged the NEP in court. The federal government was thus forced to
negotiate a settlement of oil and gas prices as well as taxes and revenue sharing with the westerners and these agreements were on a long term basis (Leach, 1984, p. 17).

The lesson here for Nigeria is that all parties to the conflict exhibited political maturity by embracing compromise and not heating the polity unduly. Consultation rather than unilateralism would enhance results of efficiency and equity. It is worth noting in this connection that in Nigeria in 1969, earlier conflicts about the ownership and control of oil revenue were unilaterally determined by the federal government when General Yakubu Gowon promulgated the Petroleum Decree No. 51 and placed ownership of oil resources under the federal government (Soremekun & Obi, 1993, pp. 219-220). There were muted rumblings over this federal government take-over but the government still had her way and this has been entrenched in the nation’s statutory books.

Transfers to Correct Vertical Fiscal Imbalance

Granted that fiscal transfers are used to make up for revenue shortfalls, (Bahl, 1994, p. 135), Canada makes two main transfers from the federal government at Ottawa to the provinces. One is called the Canadian Health and Social Transfer (CHST). Subsumed under this are one for health and the other for social programs including tertiary education. These transfers (13.5% of personal income tax and one percent of corporate income tax) both federally collected and transferred to provinces (McLean, 2003, p. 8) depict that Canadians see health as overwhelmingly the most important political issue for them. There is a national commitment to comparable rights for all Canadians on this issue even though health is primarily a provincial responsibility (McLean, 2003, p. 6). Much more importantly the CHST bridges the vertical fiscal imbalance between the provinces and the federal government (Boadway & Watts, 2004, p. 8). Thus there is really no vertical fiscal inequality because in addition to CHST transfer, the most robust tax bases are open to both orders of government. Provincial only sources (natural resource royalties and gambling taxes) are more robust than federal only sources (such as tariffs). More so, the dominant tax base, customs, and excise that went to the federal government have now been eroded by the North American Free Trade Agreement (NAFTA) which provides for free trade between United States of America, Canada, and Mexico, and the elimination of custom and excise tariffs and removal of all barriers to trade in goods and
services (Christian, 2001, p. 513). All the central government pre-occupies itself with is the use of power of regulation to redistribute a substantial portion of the revenues among the provinces. Nevertheless, Canadian provinces also engage with wide-ranging para-diplomacy in order to promote commerce with other federating units in the United States and other countries. To a considerable extent this is cumulatively bound to mitigate the impact of the erosion of the federation’s dominant tax base.

Vertical fiscal imbalance is an evident problem in Nigeria. This is because the federal government controls the most elastic and lucrative sources of income for the federation. This ranges from oil resources of states to royalties from the oil, gas, minerals corporate income tax, customs and excise duties, and import and export taxes. States have been left with personal income tax, vehicle registration fee, court fees, and other marginal sources of income. The emerging arrangement for economic integration in the sub-region, Economic Community of West African States (ECOWAS), has not been as effective as NAFTA to the extent that it would erode the buoyant sources of revenue for the federal government. The result is that the central government has more than enough funds to do whatever it wishes. Taking a cue from the Canadian experience on management of Vertical Fiscal Imbalance (VFI), the Nigerian government should commit itself to sponsoring and subsidizing national programs on agriculture, healthcare delivery, and education. These are three major programs that fundamentally affect the well being of the citizenry of any nation. If the central government gets actively involved in these programs, it would have effectively solved a major problem of vertical fiscal imbalance because a substantial portion of the financial burden for these three essential service areas are borne by the states with their meager revenues.

**Tax Collection**

In Canada the federal government collects on behalf of the provinces provincially levied income taxes in order to facilitate tax harmonization (Boadway & Watts, 2004, p. 17). Thus tax competition which is always an issue in federal finance is limited among Canadian provinces (McLean 2003, p. 6).

In constitutional terms, the states and federal government in Nigeria share the jurisdiction and right to revenue from income taxes. The federal government of Nigeria has exclusive control over personal income tax from the Armed
Forces, External Affairs Ministry, alien residents, residents of Federal Capital Territory, and the Nigerian Police Force. The company income tax is also exclusively federal. However, all other income taxes (especially personal income tax) are collected and administered by the federating units as they have exclusive right to that revenue (The Nigerian Constitution, 1999, Sec. 162). The allocation of personal income tax to states was meant to help minimize administrative cost, and ensure relative correspondence between sub-national expenditure responsibilities and their financial resources. The personal income tax has not been a buoyant source of revenue for the states and this has kept the VFI very apparent (Anyanwu, 1999, p. 128).

Para-Diplomacy: A Phenomenon Worthy of Emulation

Para-diplomacy is the term coined to express the movement of federative units into the field of international relations. Quebec and other Canadian provinces are engaged in para-diplomacy outside of the Canadian federation. The motivation for this is that para-diplomacy offers Canadian provinces opportunities to protect and improve lives of the people they represent, carry out international trade directly, and gain international presence. It is also provides an avenue to attract tourists and foreign direct investment, which will cumulatively improve Canada's global competitiveness (Rodrigues, 2006).

Nigeria's federating units can take a clue from this emergent practice to tackle VFI. The federative units can engage in international trade, and also attract foreign direct investment from countries in the West African sub-region and beyond. This can be a tool to shore up states' finances, protect and improve the lives of the people they represent, and collectively improve Nigeria's global competitiveness. On the contrary, Nigerian states are not yet mature enough to engage in para-diplomacy. This is because the Nigerian constitution and the political culture do not leave room for such performance. The implication of para-diplomacy for a highly centralized federation like Nigeria is that it could lead to intergovernmental conflict and confusion. Furthermore it could encourage separatist activities and nationalism in the emerging federation. Though with measured incremental changes in the body polity, the constitution, and the political culture, Nigerian states can achieve such status and improve the lot of their people, the states, and the federation.
“Need” as a Revenue Sharing Principle

“Need” plays a small role in Canadian intergovernmental fiscal relations because the cost of delivering public services in poor zones (even with large population) is lower than in rich ones. This is so because each province negotiates its own pay arrangements with its employees (McLean, 2003, p. 10). It should also be noted that “Needs” is contextual. What a province might term as an essential need may appear as a luxury to another province. Subsequently, this whole arrangement might act as a disincentive to other provinces (to pay fully to the central account) and this would in turn inhibit the attainment of fiscal goals set by the federal government.

One condition that would have necessitated the insertion of a needs-based formula in revenue allocation is the “sparsity of settlement” (land mass in the Nigerian context). Canada discouraged the use of this principle by encouraging migration within the provinces for economic reasons while leaving the large uninhabited expanse of land fallow till a period it can be appropriated for proper use. All provinces except Prince Edward Island have sparsely populated hinterlands (McLean, 2003, p. 13). Rather than appropriating money for an inefficient principle like “sparsity of settlement” that would really not add value to human life, the administrators of Canada’s federal fiscal system believe that encouraging migration within the provinces is an efficient cost-saving measure. For them, the money that would have been appropriated for this formula (sparsity of settlement) would be better utilized for the benefit of the citizenry elsewhere.

The Canadian experience with management of sparsely populated provinces suggests the need for the Nigerian government to re-examine the land mass principle. The principle does not cut across all states of the federation and it does not lend itself to the critical logic of fiscal efficiency, fiscal responsibility, and self reliance which are part of the hallmarks of federalism. The principle was fashioned out by the military for which expediency was the predominant deciding factor in the adoption of principles for revenue sharing. Rather than the federal government appropriating 10% of national revenue for land mass and terrain principle, the state governments of the large remote and sparsely populated expanse of lands in the North (because of its arid nature, e.g., Borno and Yobe) should reduce public expenditure in these areas. They can accomplish this by encouraging migration within the states. More so, since states control
their own wage bills, these bills are lower in poor states (like Yobe and Borno) than in rich states like Lagos and Rivers. Moreover it is widely accepted that the disadvantages of poor areas are offset by the lower costs of providing services which states’ budgets can easily accommodate with the encouragement of migration. This arrangement will be cost efficient for the Nigerian federation. A large land size ought to be able to produce large wealth; if it does not, it should be accepted as fallow until it can properly be reclaimed for profitable use.

**From Centralization to Decentralization**

Canada has, over 136 years of existence, evolved from a relatively centralized federation to a more decentralized federal system in the 1970s. A key element in that trend has been the evolution of its fiscal arrangements. (Boadway & Watts, 2004, p. 15). In marked contrast to Nigeria (which started out as a relatively decentralized federation and shifted to a centralized one), Canada did not tinker with her constitution with the sole aim of favoring the federal government. Before oil was discovered in Alberta, Alberta was one of the poorest provinces. With the discovery of oil and the rising profile of the province’s oil revenue, the central government did not decide to centralize the control of that resource because of the reverence for the constitution and the rule of law.

In Nigeria, the discovery of oil in the Eastern Region in commercial quantities made the federal government to promulgate decrees that reflected the central government’s takeover of this hitherto regional jurisdiction. Subsequent regimes, both military and civil did not reverse the centralization order. On the contrary, the centralization of this resource base has been entrenched in the subsequent Nigerian constitutions (The various Nigerian Constitutions: 1979, 1989, 1999).

In Canada the provinces have succeeded in obtaining good control over important sources of revenue and this has facilitated their attainment of some degree of autonomy. Furthermore, there is no permanent institution to manage intergovernmental fiscal relations in Canada. According to R.L. Watts, the reluctance to set up a permanent intergovernmental commission in Canada was because “such a commission would limit the independence of the provinces which would in turn minimize the authority of the legislatures” (Akindele, 2001, p. 20). Intergovernmental fiscal relations in Canada are managed through ad-hoc decisions reached at administrative conferences. These decisions on fiscal matters have addressed provincial concerns. Through this process political and economic
stability has been built into the federation, and the feeling of equity made apparent among the provinces.

For Nigeria, the replacement of ad-hoc revenue distribution arrangement with an objective commission, i.e., the RMAFC, in 1988, was aimed at insulating intergovernmental fiscal relations from political pressures for patronage. The strong history of individually negotiated sharing arrangements between the regions and the central government, however, has placed great pressure on the commission forcing her to reconvene annually to address revenue sharing formulae (Litvack, 1994, p. 234). The RMAFC has primarily been successful at recommending objective sharing formulae to the heads of state. However, heads of state through 1988 and 1999 unilaterally modified RMAFC's recommendations to suit their own perceived world view (Danjuma, 1994, pp. 87-115). Hence RMAFC at this period was not independent and as such could not enforce informed and objective decisions which would have made states perceive a greater sense of justice.

With regard to local government funding, all financial transfers to the local governments in Canada come under the sole control of the provincial governments. In Nigeria the local governments have been under the direct control of the central government that distributes statutory funds to them since the late 1970s. Oftentimes, state governments were bypassed even though the state governments were also supposed to counter-fund the local governments. States have not been fulfilling this role (Akpan, 1999, p. 245) because they themselves do not get adequate funding from the federal government. Besides, this, the assignment and sharing of major tax bases remain the prerogative of the federal government. Consequently, over time, the central government has manipulated tax rates to solve macro-economic problems without bordering much about the lower levels since the latter are not politically strong and have no major tax bases assigned to them.

**Institutional Framework**

There is an institutional factor that directly affects relations between the two orders of government in the two countries. This has to do with the number of constituent units. There are 36 states in Nigeria but only 10 provinces in Canada. Several of the larger and richer Canadian provinces, especially Ontario, Quebec, Alberta, and British Columbia can challenge the central government. This is
because they are relatively independent financially and are also political hubs of power. This is in marked contrast to Nigeria where oil rich states are not strong enough to attempt credible challenges to the federal government and were they to do so, they would have problems. This is because the Nigerian constitution has seriously curtailed the powers of the states, and has enlarged the legislative and fiscal powers of the central government.

Thus societal and institutional factors have partly accounted for the manifest differences in the operations of Canadian and Nigerian fiscal federalism. These factors are cumulative and reinforcing while working in opposite directions: towards a more centralized regime in Nigeria and a more diffuse distribution of fiscal and administrative power in Canada.

**Significant Differences in the Constitutional and Political Context**

There are broad differences in the federal contexts and in the issues of federal finance between Canada and Nigeria. The Canadian federation operates a parliamentary system of government which is well suited for a federal country. It ensures accountability of the executives to the legislature. This is more so because legislative and executive branches of government are fused within federal legislature with executives chosen from within and responsible to the legislatures. The power structure is rather diffused. This contrasts with presidential federalism that Nigeria adopted. This type of federalism accumulates rather than delegates powers. The Canadian federation has never experienced military rule. Authoritarian military rule is alien to her tradition of governance. Canada not only has a strong culture of liberal democracy but also firmly established traditions of civilian control over the military. To this extent, the federation has embraced the intrinsic values of federalism which are the combination of shared rule through a common government, the over-riding rule of constitutional law, respect, and tolerance for minorities, respect for the rule of law, and the need for compromise to achieve democratic consensus.

In Nigeria, military rule excessively centralized administrative and fiscal structures of government. Thus federal-state relations became not a question of partnership but rather of the superior giving orders to the subordinate. In terms of the practice of fiscal federalism, Canada has been able to make considerable progress because of the relative autonomy granted provinces in the control of their resources. In addition, Canada has been able to use her power of taxation to equalize revenue among the provinces. Also this has helped in creating relative
stability in the system. Beyond this, Canada has been able to adapt well to the ever-changing demands of her dynamic society. She moved from centralization in early years of independence to reasonable decentralization in the current dispensation.

For Nigeria, intergovernmental relations have been less successful partly because her principles for sharing revenues are unscientific, not pragmatic, and neither is it dynamic. A case in point is the equalization principle which is highly politicized. Across the board, all states get particular lump sums irrespective of their need and absorptive capacity. Also Nigeria has also not been flexible with the administration of national revenues. While most federations are moving from centralization to decentralization of fiscal powers, Nigeria has moved in the opposite direction.

Political Culture as a Critical Factor in the working of Federal Finance

The working of fiscal federalism is very much affected by the political culture of the country in which such imported institution functions. Political culture denotes the emotional and attitudinal environment within which the political system operates. Thus a nation’s political culture refers to the people’s orientation towards political objects. There are three typologies of political culture. These are the parochial, subject, and participant political cultures (Babawale, 1999, pp. 212-213).

Canada approximates the participant political culture. Here, the public is aware of both inputs and outputs of government. They believe in their ability to influence their government, such as in the NEP issue. In addition, the belief or emotion by virtue of which the rulers claim the moral right to govern and be obeyed is generally accepted by the citizenry (Babawale, 1999, p. 216). Given this mature political culture of give and take (such as that which takes place at the annual meetings of Provincial premiers and their counterparts at Ottawa), there is an efficient and smooth functioning of the fine tenets of fiscal federalism in Canada.

Nigeria on the other hand fits into the parochial political culture variety. Here the citizens do not participate actively in governance as they believe that they have no influence on the government. The political structures are not institutionalized, politics is permeated by ethnic sentiments, and dominant political norms—“rules of the game”—have not been sufficiently internalized
(Dudley, 1982, p. 76). In addition, institutions of restraint are weak, the public is weakly organized, and their opinion ignored.

A fundamental reason for the flowering of this disposition in Nigeria can be attributed to the primacy of the primordial culture in Nigeria’s public realm (Ake, 2000, p. 30). The primordial culture is nurtured by the values of indigenous societies such as communalism, kinship ties, ethnicity, and regionalism in the public realm (Ekeh, 1983, pp. 23-24). The coexistence of the primordial and civic culture (imported from Europe) in the Nigerian public space has inhibited the equitable and efficient allocation of federal funds. The practice of fiscal federalism in Nigeria is caught in between these two perspectives (civic and primordial) of governance. Here legal-rational (official) concerns and communal interests become entangled. Thus problems of corruption, ethnicity, and inequality in the distribution of federal resources are then attributed to the fact that the same individuals (government employees and political office holders) operate in the two “publics” working at cross purposes.

The non-institutionalization of the civic culture in Nigeria’s public realm has endangered the viability and sustainability of the Nigerian federation and practice of the fine principles of fiscal federalism in particular. Importantly too, the hostile and predatory nature of the Nigerian state, averse to social welfare and provisioning (Ake, 2000, p. 32), has further reinforced the primordial culture in Nigeria as people retreat back into their ethnic cocoons to incarnate and revalidate their very being and so (ethnic solidarity group) is worthy of being defended at all cost.

Feasible Course for Political and Administrative Reforms

A Role for the Civil Society

Having identified this problem, the necessity for reform cannot be overemphasized. Preceding the reforms are the fundamental changes that must take place in the polity as these are what would guarantee the reforms, ensure robust practice of fiscal federalism, and promote accountability and transparency in governance.

To start with, the political culture in Nigeria must change. This will be facilitated through massive investment in education, mass media, and mass political mobilization (through reformed political parties, the electoral
institution, and democratization process) (Babawale, 1999, p.218). In addition there must be the political will on the part of the state administrators to change existing harmful political and economic structures.

Observably, the present crop of administrators will most likely resist fundamental political changes because they are core beneficiaries of the present system. However, the critical agencies that can help in driving the needed political change are those of the civil society and the ordinary people (through the development of their own political consciousness, organization, and struggle). (Ake, 2000, p.19). The civil society occupies the space between the citizens and the state (Bradley, 2005, p. 64). They can intervene in the social, economic, and political process to articulate the ethical vision of social life (Adejumobi, 2005, p. 264). It is this agency that will generate, reinforce, and recruit political will for reform from within the government and perhaps with some measure of external pressure from international actors (Diamond, 2004, p. 238).

For the civil society to succeed at this enterprise (which will be gradual), it must be credible, vigorous, and pluralistic, consisting of independent associations, think tanks, and vibrant mass media. Its credibility would derive from its fiscal independence, autonomy from the state and the economy, its non profitability, and its capacity to transcend ethnicity (Obadare, 2004, pp. 147-148). These attributes will confer strength and legitimacy, and ensure the success of the civil society in driving for major political changes in the polity. These changes achieved, the chances are that the public will become more politically articulate and participate in the decision making process, while the government will also become more responsive and bestow reverence to public opinion.

These changes will also impact party politics as the political parties are products of the system and they are in need of reform. For genuinely ideological groupings to emerge as vibrant political parties there should be a review of the Nigerian constitution to reflect the democratic tenets of party recognition rather than registration. The ballot box should be left to determine the viability or otherwise of any political party in the federation. (Aina, 2004, p. 8)

Restructuring the Federal Edifice

The manageable number of federating units in Canada (10 provinces) can also be viewed as a factor contributing to the efficiency of federal finance practice in Canada. Thus it will not be out of place to advocate that the Nigerian state too
be restructured with the states aligning with the geo-political configuration of the Nigerian federation. Nigeria can be streamlined into six zones. Each zone has many things in common in terms of shared historical experience, culture, and ethnic configuration that existed in the 1950s and early 1960s.

This rationalization process will help check duplication of government activities, make governance much more cost effective, and compact and encourage efficiency in delivery of government services. The geo-political formations would also become the real hubs of power and this will help in further diffusing the currencies of power by shifting it away from the central government to the federating units. This can help discourage the intense rush to the centre (Abuja), as the center would no longer hold much attraction for politicians (Adedeji, 2001).

**Conclusion**

Nigeria and Canada provide a fascinating paradox in their practice of fiscal federalism. The explanation for this lies in the fundamentally different political cultures, socio-economic, and institutional factors that have shaped federalism within the two federations. Variations in political culture, socio-economic, and institutional factors have also had impact on the political process within the two federal systems. Federalism calls for a pragmatic approach and it also represents a dynamic political technique for accommodating the circumstances and needs of the particular society in question. However, lessons from this comparative exercise also show that there are essential tenets that support the practice of fiscal federalism universally and which can be functional in Nigeria if meticulously applied. Some of these tenets include constitutionalism (the rule of law) of the citizenry imbibing the spirit of equality before the law and political maturity. Among other things, this spirit could check the intervention of the military in governance and other constitutional breaches. Other tenets are accountability of the leadership to the masses (electorate), transparency and accountability in government expenditure, and revenue sharing among the federating units.

Furthermore, revenue sharing, vertically and horizontally should be based on mutual convenience and compromise, like what obtains in Canada rather than on statutes which presently obtains in Nigeria. Nigerian government should engage in non-politicized interventionist policies of giving specific-purpose grants to needy states to tackle specific challenges. For instance, oil spillage, erosion, and desertification are genuine environmental challenges that the federal
government can assist with counterpart funding unlike land mass and terrain which is “political” in nature. To check the misappropriation of these funds, the funds should go directly to the local governments as they are the closest to the oil communities. Crash programs on management of revenues should be conducted for the fund managers at the local government level. Thus protests by the aggrieved communities would be directed not at the state or federal government nor the oil companies but at their elected sons and daughters at the local government and ward levels if the funds are misappropriated. Besides, institutions of restraint should be strengthened, the civil society should be alive to its responsibilities while legal codes should be modernized, and the judicial system empowered with significant capacity and independence to perform its constitutional role.

On a final note, every change initiative begins and ends with leadership which is a decisive factor in governance. In the Canadian federation, which I have examined, the leadership has attained the level of statesmanship, transcending parochial interest. The Canadian statesmanlike approach to politics guarantees for the interest of all citizens of the federation irrespective of their ideological leaning, gender, ethnic background, and political party affiliation. In the same vein, the practice of fiscal federalism in Nigeria would be enriched if Nigerian politicians imbibe the statesmanlike approach to politics. The ultimate challenge to Nigeria is to evolve its own federal system to suit its own circumstances, ensure the welfare of every Nigerian, and strengthen the desire to stay together.

Notes

1In Nigeria the cost of living in industrialized and commercial areas like Lagos in the southwest and Portharcourt in the South-South is high, while it is low in states like Oyo in the Southwest and Borno, Yobe, and Sokoto states in the North because they are not industrialized states.

References


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