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ECONOMIC DOWNTURN AND FEDERAL PRACTICE IN NIGERIA

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ABSTRACT

The economic situation in any federal system is crucial to its continued existence. The Nigerian economic system is at a downturn due to its centralised structure; each constituent unit is finding it difficult to perform its responsibilities. This study investigates the impacts of the recent economic downturn on the practice of fiscal federalism in Nigeria. The study used quarterly data (2013Q1-2017Q4) on the total federal allocation of revenue to federal, state and local government and the real GDP growth during recession times. The Augmented Dickey Fuller (ADF) unit root test and Autoregressive Impulse Response Function (IRF) were employed. Results revealed an insignificant positive response of real GDP growth during the economic downturn to 'shock' in the federal practice of revenue allocation. The study identifies an over-dependence on oil revenue and federal allocation, an absence of decentralisation, overwhelming levels of corruption, rent-seeking leaders and politicisation of fiscal federalism, amongst others, as the core issues hindering the practice of fiscal federalism in Nigeria. It concludes that for there to be true fiscal federalism, Nigeria should encourage the principle of derivation in her revenue allocation formula and effective decentralisation, as well as economic diversification for effective governance.

Keywords: economic downturn, federal practice, revenue, fiscal federalism

1. INTRODUCTION

Federalism, according to Nkwede (2014), is a system of government with built-in mechanisms that enable various components or constituent-state government operations which are not necessarily mutually exclusive, to gain explicit power in terms of the legislation. These powers afford them control or adjudication over this sphere. Fiscal federalism relates to the existence of government in a nation comprising more than one tier of government, each with different expenditure responsibilities and revenue raising powers (Okigbo, 1965). Invariably, in the case of Nigeria, this means that the sharing of roles and resources among the constituent units of the Nigerian government, namely, federal, state and local government, form the practice of fiscal federalism. Over time, fiscal federalism and revenue allocation have been used interchangeably, whereas revenue allocation is only a part of fiscal federalism in a federal system[1]. The rationale behind fiscal federation lies in the opinion that services providing localised benefits are best offered by the level of government that exercises jurisdiction over the benefiting citizens, while the services whose benefits are shared by the entire population are best provided by the federal or national government (Musgrave & Musgrave, 1989). It is on this basis that there are provisions for exclusive, concurrent and residual[2] responsibilities among the three tiers of government in Nigeria.

Fiscal federalism involves inter-governmental fiscal relationships with a focus on which roles and instruments are best centralised and which are best placed in the sphere of decentralised levels of government (Oates, 1999). It is presumed that the tax sharing powers between the various tiers of government are appointed to guarantee the equitable distribution of the nation's wealth in the practice of true federalism, in order to ensure an

1 A federal system refers to that political system where there is a constitutional division of power between two levels of government: the central government and the levels of co-ordinate unit.

2 An exclusive list consists of those responsibilities to be handled only by the central government, which includes issues related to defence, foreign affairs, exchange control, etc. The concurrent list contains the shared responsibilities between the central/federal and state government e.g. issues related to health, social welfare, education, and electricity, while the residual list consists of those not assigned to federal nor local government i.e. meant for the state only (Ola & Offiong, 2007).

improved economic system. Contrarily, over some time, revenue allocation in Nigeria has been greatly skewed in favour of the federal government. This has been the practice from independence and the Okigbo presidential commission of 1980, with the federal government allocation at 55%, State at 35%, and local government at 10%. Although there were controversies, disagreements, and conflict as a result of the sharing in the past years (see Adamolekun, 1986), Table 1 still indicates a lopsided sharing formula.

Table 1: Summary of revenue allocation in Nigeria

ALLOCATIONS IN %	1985-1989	1990-1991	1992	1993	1994-1998	1999-2000	2000-2010	2010-to date
Federal	55%	50%	50%	48.5%	48.5%	41.3%	52.68%	48%
State	32.5%	30%	25%	24%	24%	31%	26.72%	24.0%
Local	10%	15%	20%	20%	20%	16%	20.60%	29.0%
Special Fund	-	-	-	-	7.5%	-	-	7.5%

Source: Lukpata (2013) & Akujuru & Chintuwa (2015)

The Nigerian state in 2016 was still in the throes of an economic challenge of great proportions, second only to the one witnessed in the 1980s during the Shagari administration. This economic condition was attributed to a rapid fall in the international oil price from $112 in 2014 to $53 in 2015. The oil price was around $38 in 2016 (PWC, 2015). Subsequently, Nigeria became a major victim of the global crisis, due to the fact that it is a mono-economy, (oil exporter), as well as the non-diversification of its resource base. As a demonstration of this dire situation, the 2016 budget was delayed for several months due to fluctuations in the international oil price. 83% of the proposed budget was planned for oil. This resulted in low revenue to the federation account from which states derive their funds. States depend on a monthly allocation from the federal government. When the economy was down, the constituent units would barely survive. They found it difficult to pay workers' salaries and to engage in capital projects. These challenges have raised serious issues in Nigerian federalism, whose units depend solely on federal allocation. There is therefore a need to interrogate the effects of the economic downtown on federal practice in Nigeria.

1.1 Problem Statement

Nigeria's economic situation in 2016 and thereafter has become a matter of concern to scholars, policy-makers, and even the general masses. Economic activities have slowed down; inflation is on the rise; there is evidence of low investment and unemployment, consumption is reduced, and ultimately, the gross domestic product declined by 0.36% at the end of the first quarter of the year 2016 (NBS, 2016). The system of fiscal federalism practised in Nigeria is nothing short of a centralised system. A greater portion of the sources of revenue in the country is paid to the federation account, which is later distributed among the tiers of government depending on the adopted formula. Meanwhile, the current sharing formula gives a larger percentage to the federal government, which makes the constituent units depend on the federal government for survival. As a result of the present economic status of the country, revenue has reduced, thereby diminishing the amount of monthly allocation allotted to each unit. Consequently, states and local governments are barely surviving, and finding it difficult to meet their recurrent expenses, especially that of capital projects.

This study investigates the state of fiscal federalism in Nigeria and the impact of the economic downturn on this practice. It also highlights some of the core issues in Nigeria's economic challenges and how they affect its federal practice.

The study is significant as it examines the effect of the present economic downturn/crisis on federal practice in Nigeria. Although studies exist on the effects of fiscal federalism on economic development (Ijaiya, 1999; Ifeanyi & Innocent, 2013; Oladele, 2014), the effects of the recent economic crisis on fiscal federal practice are yet to be adequately explored.

1.2 Background

This section presents background information and related literature on the Nigerian fiscal federalism and economic system.

1.2.1 Fiscal federalism in Nigeria

Fiscal federalism can be understood as how generated revenue is allocated to all federal units. This is likened to revenue allocation, which is the distribution of fiscal capacity between the various levels of government, or the disposition of fiscal responsibilities between the tiers of government (Salami, 2011). Moreover, to actually understand the issue of revenue allocation in Nigeria, there is a need to analyse two basic allocation arrangements in the Nigerian revenue system. These are vertical and horizontal revenue allocation arrangements.

The vertical sharing arrangement is the revenue sharing system where the federal government retains some of the federally collected revenue as its independent revenue, which is distributed among the tiers of government in-line with an agreeable formula (Odion, 2011). The Constitution of the Federal Republic of Nigeria allocated the expenditure assignment to be performed by each level of government. The functions of each level of government are explicitly stated in the 1963 Federal Constitution under two main headings:

- Exclusive list - this comprises the functions to be performed exclusively by the federal government. These are roles related to external affairs, the issue of legal tender currency, police, defence, the account of the federal government, and so on.
- Concurrent legislative list - these are roles to be performed by the federal and state/regional government. These are roles related to census, higher education, industrial development, prisons, national parks, and antiquities. Meanwhile, the roles of the local government as stated in the 1979, 1989, and 1999 versions of the Constitution of the Federal Republic of Nigeria, concern the provision of public goods, maintenance of cemeteries, the naming of roads and street, licensing, refuse disposal and public conveniences etc.

In view of this, Ekpo (2004) highlighted ten principles of revenue allocation that have been adopted in Nigeria, including the principles of need, derivation, national interest, correction of spill-over effects, equality of state, and principle of social safety net' as noted by Kayode (2014). Ekpo (2004) mentions further principles of minimum provision of essential public goods and of accommodation, amongst others. What seems to be obvious and consistent in Nigeria's revenue allocation formula, is the assignment of the lion's share and centrally generated revenue, to the federal government.

1.2.2 The nature of Nigeria's economic system

The Nigerian economic system is mono-economic in nature; it depends mainly on oil as a source of foreign exchange earnings and a source of government revenue. A nation's gross domestic product (GDP) depicts the condition of the country, while the major components of GDP are generally consumption, investment, government expenditure and net export.

Nigeria's economy is focused on oil, whereas the oil sector contributed only 10.29% of the total real GDP. This was marginally lower than the share recorded in the equivalent period of 2015, yet higher from the share in the last quarter of 2015 by 2.24% points. The non-oil sector slowed down by 0.18% in real terms in the first quarter of 2016. This was 5.77% points lower from the corresponding quarter in 2014 and 3.32% points lower from the previous quarter. In real terms, the non-oil sector contributed 89.71% to the nation's GDP, marginally higher from shares recorded in the first quarter of 2016's 89.55%, yet lower from the fourth quarter of 2015's 91.94% (NBS, Quarter one, 2016).

Consequently, the gross domestic product[3] declined drastically by 0.36% in real terms by the first quarter of 2016. This was lower by 2.47% points from the growth recorded in the preceding quarter and it also lowered by a further 4.32% points from growth recorded in the equivalent quarter of 2015. Quarter on quarter, real GDP reduced by 13.71% (NBS, Quarter one, 2016). This state of the economy has an effect on all economic agents[4] in the country: investment reduces, there are lower profits from business, *ipso facto* more unemployment, higher inflation and finally, economic downturn or recession is apparent.

3 Gross domestic product is one of the main indicators to measure the performance of a country's economy.

4 Economic agents consist of households, firms/organisations and the government.

Between 1961 and 2014, the country’s boom periods were recorded from 1969 to 1978, though they were unstable and declining from 2003 to 2005. These periods were characterised by corruption, embezzlement and the mismanagement of public funds. Consequently, there was no tangible improvement in the economy.

The basic foundation of the theory of economic performance can be found in business or economic cycles[5]. The economic cycle involves shifts over time between periods of boom[6] or expansion and the downturn or recession periods of relative stagnation. It is a period of a single boom and contraction in sequence. The contraction period results in a general slowdown in the country’s economic activities. Business cycles are measured by taking cognisance of the growth in the real GDP.

The theory of the business cycle stems from the postulation that a period of economic boom will be followed by one of recession.

Peak (1971-1977)

1979

Through

Recession Recovery

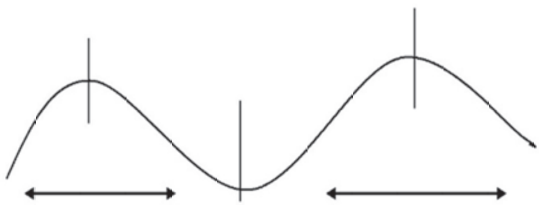

Figure 1: Economic cycle peak
Source: Author 2018

Intuitively, this cycle is unavoidable, but financially astute countries of the world make provision for periods of recession, by building up stock and treasury in preparation for booms and recessions. In Nigeria’s case, the period of the boom was not adequately maximized, as inflation, unemployment, and low productivity were experienced. Various policies adopted during the pro-oil boom failed to address the identified features of

5 Economic cycle is the downward and upward movements of the gross domestic product around its long-term trend (Madhani, 2010).

6 Booms are periods of relatively rapid economic growth.

the economy, such as the 1962-1968 First National Development Plan and import substitution.

Despite the oil boom of 1971-1977, the private sector remained weak. The economy was consuming instead of producing, while the austerity measures introduced were short-lived because structural problems were not addressed. GDP, which grew at 10.5% in 1976, declined by 5.7% in 1978 and grew by only 5.9% in 1979 (Olaniyi, 2015). Automatically, by the year 1979, Nigeria entered a recessionary phase which required further stabilisation measures to reverse the situation. Much attention was fixed on oil, as corruption and embezzlement of public funds gained ground.

1.2.3 Economic System and Fiscal Federalism in Nigeria

Fiscal federalism is expected to perform some roles in the economy, ranging from ensuring price stability, equitable income distribution, increases in investment, a favourable balance of payment and maintaining stability in the exchange rate. The financial and economic status of a country has a significant role to play in ensuring true fiscal federalism. This will empower the constituent states to perform their responsibilities as expected. Although there are human and non-human factors militating against the practice of federalism in Nigeria, the economic downturn actually made things worse. The effect of economic development and its depression cuts across individuals, households, groups, firms/organisations and the country as a whole. However, development is achieved when all the required governmental structures and policies are well in place. Thus, in line with this, there are important roles of fiscal federalism in ensuring a developed economic system. It ensures an equitable distribution of wealth through the decentralisation of fiscal policies.

As noted, Nigeria operates three tiers of federalism (federal, state, and local government). Fiscal federalism, through the principle of derivation, has a way of encouraging constituent states to develop their in-built capacities at their respective paces, thereby also encouraging healthy competition among states which can lead to socio-economic development. States are geared towards identifying those areas that have a comparative advantage, thereby developing them. If public holders, decision-makers and leaders are nonchalant about the development of the economy, realising the benefits of fiscal federalism will be an uphill task.

2. LITERATURE REVIEW

2.1 Theoretical review

There are several theories on economic growth, one of which is the Keynesian theory of employment, interest and money, which is based on the fact that the expansion of aggregate effective demand contributes to economic growth. British economist Keynes (1936) stated that during the economic recession and rising unemployment, decreases in income led to falls in consumption, savings and investment. According to Keynes (1936), in a society where there is no market leverage to improve aggregate demand for reviving business activity in the economy, the government should intervene by implementing a macro-economic fiscal policy. This could be done, for example, through tax cuts or increases in government spending. On the monetary side, a reduction in interest rate is essential to stimulate the economy. However, the Keynesian approach to economic growth considers short-term periods and the specific situation of a depressed economy.

The post-Keynesian theory of economic growth expanded the Keynes approach in the long-term. Harrod (1939) and Domar (1946) independently developed what turned out to be identical growth models, which are referred to as the Harrod-Domar model. The model used a dynamic approach to formulate economic growth with the accelerator principle and multiplier theory. It is concerned with the dual nature of investments, or a change in capital stock over a period of time. The main question the theory tries to answer is, “what rate of investment is needed to attain a target growth rate?”. Among other criticisms, the model requires a prerequisite for building the analysis within the theory, because economic growth does not depend on the growth in the use of labour but rather on investment growth, without taking technological progress into account. Moreover, the prospect of product development in the 1950s to the 1970s, depended on qualitative and technological changes, which are lacking in the Harrod-

Domar model, but reflected in neo-classical theories of economic growth, for example, the Solow growth model.

The Solow growth model of the 1950s is designed to show how growth in capital stock and the labour force, as well as advances in technological progress, interact in the economy, and affect a nation's total output of goods and services. The model formalised and expanded the Harrod-Domar model that stressed the importance of savings, investment and capital, by adding labour, capital, and technology. The theory stemmed from the fact that the equilibrium of the economic system is attained by the equality of aggregate demand and supply. The supply side is formed on the basis of the Cobb–Douglas production function which expresses output as a function of capital stock and labour. The theory reveals interconnections among three sources of economic growth: investment, workforce, and technological progress. Firstly, the savings rate is an important factor for ascertaining the level of capital intensity, such that an increase provides a greater stock of capital (growth in investment), and thus an increase in production level. Secondly, population growth is seen as an important factor for continued economic growth. Notwithstanding, it leads to reductions in capital stock per worker if not accompanied by a rise in investment. The third source of economic growth, according to the Solow model, is technical progress, which refers to the qualitative changes in production, for example, increases in the educational level of workers, or the growth of production scales.

A recent development in economic growth theory is the endogenous growth theories of the 1980s and 1990s. These theories can be grouped into two categories: firstly, theories in which human capital emerges as an important determinant of economic growth such as the theories of Romer (1989) and Lucas (1988), and secondly, theories where research and development (R&D) form a key factor of growth, for example, Grossman and Helpman (1991), who describe the effect of endogenous high-tech innovations to economic growth rates (United Nations, 2011).

The main idea of the endogenous growth theories is that knowledge accumulation is the rationale for sustainable development. Labour undertakes research to develop new techniques in the form of physical and human capital needed to enhance its effectiveness and efficiency. The endogenous growth theories formalised the relationship between the mechanisms of economic growth and the process of obtaining and accumulating new knowledge, which is obtained through technological innovations.

2.2 Empirical review

Brueckner (2005) used the endogenous growth model with overlapping generations to investigate the relationship between fiscal federalism and economic growth in the United States. The study showed that federalism increases incentives to save, which in turn leads to increases in investments in human capital and assurances of economic growth. Bodman (2011) investigated fiscal federalism, decentralisation and economic growth in 18 Organisation for Economic Co-operation and Development (OECD) countries, a cross-section of 1996 and a panel from the years between 1981 and 1998. The study discovered that there was no significant impact on government revenue or spending decentralisation on economic growth.

In a similar study of a panel data of 18 OECD countries between 1975 and 2008, Baskaran and Feld (2013) used Ordinary Least Square (OLS) and a fixed effect technique, and discovered a negative relationship between revenue decentralisation and economic growth. An analysis of the power of fiscal multiplier in Croatia, Gnip (2014) used structural Vector Autoregressive (VAR) and quarterly data from 1996 to 2011. The study discovered that the fiscal multiplier becomes larger during recession and moves in line with Keynesian assumptions of a positive relationship between government expenditure and output, private consumption, and private investment. With the use of VAR and structural VAR, Dumitrescui (2015) estimated the effect of fiscal policy on real GDP growth in Romania. The result showed that the levels of the fiscal multiplier are relatively low, notwithstanding the difference between its value in boom and downturn periods. However, Baskaran, Feld and Schnellenbach (2016) used the Ordinary Least Square technique and concluded that there is no agreement to be reached on the impact of decentralisation on economic growth in Switzerland, without a consensus on how to measure decentralisation.

In the context of Nigeria, Usman (2011) investigated fiscal federalism and the economic growth process in Nigeria. The study used Ordinary Least Square multiple regression with GDP as the dependent variable. The population growth rate, the share of the federal government from the federal account, the state share from the federal account, and local government's share from the federal account were the independent variables. The study found a positive relationship between the revenue allocation formula (proxy by share of each constituent unit), and the economic process in Nigeria. In the same vein, using the Error Correction Model (ECM), Ohiomu and Oluyemi (2017) added the inflation rate and the lending interest rate to the independent variables used and discovered a significant relationship.

3. METHODOLOGY

3.1 Model specification

Theoretically, economic growth is influenced by diverse factors. However, there is no clear theoretical framework to guide empirical work on the relationship between fiscal federalism and economic growth. Fiscal federalism is about how generated revenue is allocated. Revenue allocation is also the distribution of fiscal capacity, or the disposition of fiscal responsibilities among various constituent units of the government. This study used growth in the aggregate federal revenue allocation (allocation to federal, state and local government), as a proxy for fiscal federalism, an aspect of federal practice as the independent variable, while growth in real GDP was used as the dependent variable.

The model is specified thus:

$FAUg_t = f\ (RGDPg_t)$ (1), where FAUg represents growth in federal allocation to units at time 't', which is used as a proxy for federal practice, and RGDPg is growth in real GDP during the downturn period. An increase in federal allocation to constituent units facilitates the performance of unit (federal, state and local government) responsibilities, and boosts consumption, investment, and government expenditure.

Due to the scope of this study and the use of quarterly data, this study used the impulse response function to investigate the short-run dynamics of the economic downturn and revenue allocation. Hence the model is specified thus:

$$\mathrm{FAUg}_t = \beta_0 + \beta_1\,\mathrm{RGDPg}_t + \beta_2\,\Delta\mathrm{FAUg}_{t\text{-}1} + \beta_3\mathrm{RGDPg}_{t-1} + u_t$$

The study covered the period between the first quarter of 2013 and the fourth quarter of 2017. Data were sourced from the Nigeria National Bureau of Statistics.

4. RESULTS

4.1 Trend and development of federal allocation in Nigeria

The trend analysis of federal allocation to its constituent (federal, state and local government) units is presented in Figure 2. The analysis shows that the growth in federal revenue allocation has been oscillating throughout the period in focus (2014-2017).

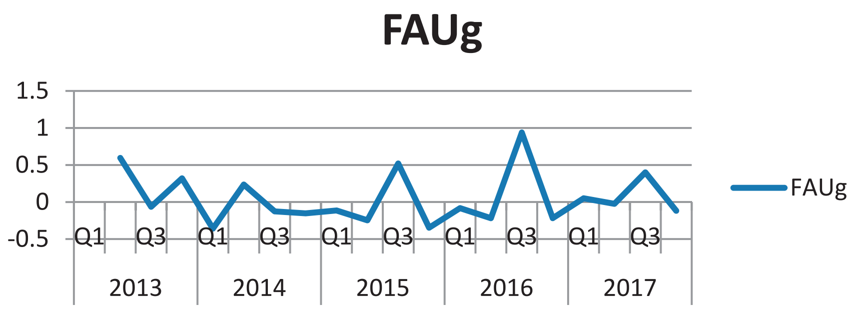

Figure 2: Trend of total federation allocation in Nigeria (quarterly)
Source: Author's 2018 (Data extracted from National Bureau of Statistics)

There was a marked improvement in falling revenue which started in the year 2014 (brought about by a decrease in global oil prices). As a result of increases in oil prices and oil production, as restiveness in the Niger Delta subsided, total Federal Account Allocation Committee (FAAC) disbursement to all government levels in 2017 was ₦6.418 trillion, which was significantly higher than in 2016 (Nigeria Extractive Industries Transparency Initiative, NEITI, 2018). However, this was lower than the amount disbursed in 2013 and 2014. This led to the upward trend of Federal allocation in the second quarter of 2017. Yet, this was lower than the FAAC disbursement in 2013 and 2014 by 31.4% and 25.3% respectively. Distribution of quarterly disbursements show that the total disbursements were at their peaks in the third quarter of 2015, 2016 and 2017. This could be attributed to an increased demand for oil in the peak summer season of the third quarter.

4.2 Federal practice and economic downturn

This section presents results on the effect of the economic downturn on federal practice in Nigeria.

4.2.1 Result of the unit root test

The result of the stationary tests conducted on all the data by means of the Augmented Dickey Fuller (ADF) test is presented in Table 2. A time series is stated as non-stationary if the mean and variance of the time series are dependent over time (Gujarati, 2004).

Table 2: Unit root test

Variables	ADF Test Statistic	5% Critical Value	Order of Integration
FAUg	-7.022	-3.0403***	I(0)
RGDPg	-2.873	-3.0404*	I(1)

Source: Author's computation (2018)

Note: *** 1% significance level

* 5% significance level

A time series is stationary if the mean and variance are constant over time. The result shows federal practice proxied by growth in federal allocation

(FAUg) is stationary or level, while growth in the real gross domestic product (RGDPg) during downturn times is stationary at first difference.

Given the result of the stationary test and the scope of the study, a short-run estimation technique (impulse response function), is adopted.

4.2.2 Result of impulse response function

The impulse response function traces the response of the dependent variable in the vector auto-regression system to shocks in the error terms. The result is presented in Figure 3.

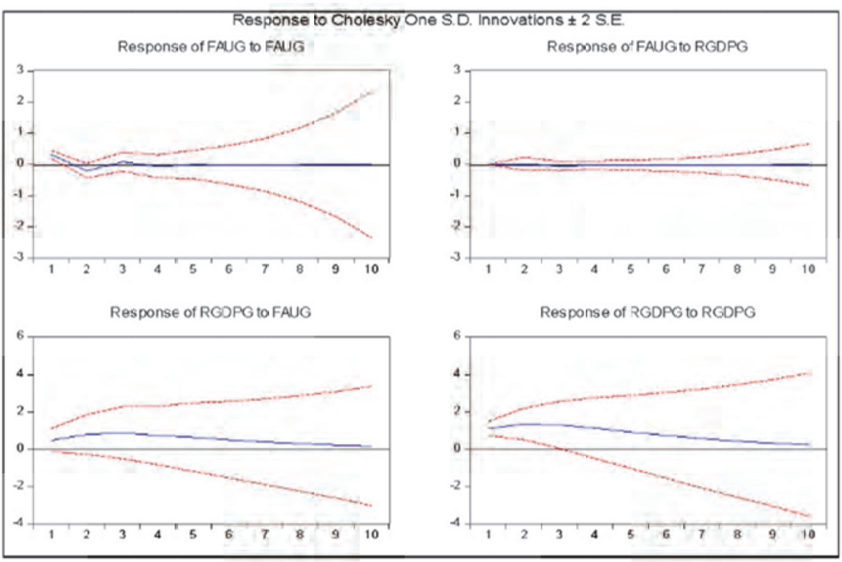

Figure 3: Impulse response function
Source: Author's computation (2018)

Considering Figure 3, growth in federal allocation (FAUG) does not respond to shocks in the growth of the real gross domestic product during the downturn (RGDPG). Although insignificant, the result shows that a positive 1% standard deviation in the growth of the federal allocation of revenue (FAUG) boosts real gross domestic production growth (RGDPG) in the period under study.

4.3 Discussion of findings

The results obtained in this study are important and have far-reaching implications for empirical conclusions and policy-making. Apart from the scope of the study, which was basically on the period of economic downturn in Nigeria, results from the unit root test further confirmed that the analysis is a short-run phenomenon.

In contrast with the findings of Usman (2011), who discovered a positive relationship between fiscal federalism and economic growth, this study found an insignificant positive response of growth in real GDP during the economic downturn to shock in federal allocation. This implies that federal revenue disbursed during this period lacks the impetus to stimulate improvements in the economic downturn in Nigeria during the period under consideration. Government efforts to improve the impact of the economic downturn on its citizens by increasing revenue allocation to federal, state and local governments, particularly in 2017, was not effective, since the economic crisis experienced was as a result of the rapid decrease in the international oil price.

The global fall in oil prices, and the shortage in oil output by the Nigerian National Petroleum Corporation (NNPC), resulted in the low revenue generated, which invariably affected the allocation accrued to the federal government and by extension, to the component states. The shortage in oil output in Nigeria is linked to the effect of pipeline vandalisation by militants in the Niger-delta, and in addition, sabotage efforts on local refineries by government officials and political actors. Most importantly, the exportation of crude oil and the importation of refined products encourages imported inflation in addition to a high demand for foreign products that further deteriorate the economy. Oil contributes only a small proportion of the GDP, indicating that the Nigerian economy is driven by government spending.

The basic issue of the present economic recession is the country's overdependence on oil resources, which makes the economy susceptible to oil price shocks. Consequently, the economic downturn reduces the amount of allocation re-distributed to each unit of government (state and local government), further limiting the capability of the units to meet the immediate/recurrent expenses of their domain. In addition, is the lack of initiatives of these units to improve the internally generated revenue, coupled with corruption, theft associated with public offices, the states' high debt profile, and the absence of decentralisation in the Nigerian federal system.

4.4 Core issues in the Nigerian federalism/fiscal system

Regardless of the inter-related roles played by fiscal federalism and economic development, it must be stressed that no matter the structures, policies, and system of government devised for a society, the public office holders and decision-makers must have a keen interest in the development of the country. Otherwise, as noted, the realisation of the benefits of fiscal federalism will be an uphill task. In the case of Nigeria, the problem of fiscal federalism is traceable to its historical, social, economic and ethnic diversity, which make the operation of federalism centrist and inequitable both vertically and horizontally. Amongst these are:

Over-dependence on oil revenue - A larger proportion of the country's revenue is from oil as if oil is a permanent resource. Notwithstanding this, high revenue does not imply economic growth. The focus of the Nigerian government is on how much a resource is yielding, not the impact on the economy. This overdependence on oil revenue has led to the undermining of the other development of the hitherto buoyant agricultural sector and other viable sectors like mining, industry and human capital development.

Over-dependency on federal allocation - The revenue allocation formula in Nigeria predictably encourages parasitic governance on the part of the constituent units in Nigeria, especially at the state level. States become relaxed and wait endlessly, expecting federal allocations to meet their recurrent expenditure or even capital expenditure. This limits the capacity of the state to provide public goods needed to sustain and promote governance. In addition to this, it makes state public holders lack initiative on how to raise their internally generated revenue. Thus each state perpetually depends on the federal government.

Lack of decentralisation - The type of federalism being practised in Nigeria is unitary in nature, and states and the local government cannot make decisions regarding the raising and spending of revenue. This actually poses a serious problem, as virtually all major revenue to be collected is paid directly to the purse of the federal government. The reason for this is not far-fetched, as there is a lack of trust and honesty at all levels of government, in addition to the overwhelming levels of corruption which have resulted in looting and theft from the federal treasury.

Non-diversification of resources - Before the advent of oil, Nigeria was known for the export of cocoa, rubber and palm oil in the global market. The discovery of oil seems to have deepened the country's laziness as states wait endlessly for federal allocation. To make things worse, the country's budget is determined by the price of a barrel of oil in the global market, which is usually not stable, to the extent that the price of oil in the global market has become a major source of macro-economic fluctuations[7] in Nigeria. These catastrophic effects of the oil price shock, which in 2012 was $112 per barrel, in 2015 $53 per barrel and in 2016, below $39 per barrel, persistently and negatively affected the national economy and development.

Rent seeking[8] *leaders* - The issue of economic rentierism has affected both the state of industrialisation and, most importantly, ushered in the politicisation of fiscal federalism. The set of people holding or seeking political posts in Nigeria are rent seekers who use the nation's wealth for the purpose of furthering their own personal interests while deluding and taunting the public on the relevance of the nation. Therefore, the nation has become a rentier economy with leadership rent-seeking, since about eighty percent of Nigeria's wealth comes from natural resources such as oil, and the leadership in Nigeria has shown a remarkable penchant for cornering or misappropriating this wealth, hence the deplorable level of development in the country in spite of huge revenues from oil (Anugwom, 2003).

7 Fluctuations are shocks in macro-economic variables.

8 Rent seeking – rent is an unearned income especially from natural resources or wealth. Rent seeking leaders share produce or natural wealth without contributing to it (Beblawi & Luciani, 1987).

Overwhelming issue of corruption – Bribery and corruption have become the order of the day in Nigeria and have actually turned into broad daylight stealing by public office holders. Even when the economy is buoyant, money is diverted to personal use and everybody feels it is national cake from which they can eat. Just as individuals at the national level have been arrested, prosecuted, and jailed for corruption, so also state-level authority is being interrogated by the Economic and Financial Crimes Commission (EFCC) on issues pertaining to financial misappropriation/impropriety and breach of trust. Agencies are also assigned to serve as watchdogs for the government but this is like a case of the pot calling the kettle black (they are also found wanting and indirectly involved in this act).

The use of violence to conjure redistribution - The nature and history of the Nigerian state presents an exclusive, rather than an inclusive form of government. This has made some states and sections of the country resort to violence in order to ensure wealth redistribution. This is the case in the Niger Delta region, which has for some time been holding the country to ransom.

5. CONCLUSION

The study concludes that federal practice in Nigeria through revenue allocation did not significantly improve the economic downturn experienced recent years. This is due to core issues in the economy and practice of the federal system in Nigeria, such as an over-dependence on oil revenue and federal allocation, the lack of decentralisation, corruption, and economic rentierism.

The way out of the country’s mono-economy nature lies in the diversification of the economy, effective leadership and accountability, anti-corruption measures, reduced cost of governance in a democratic system and the building of foreign reserves and local refineries.

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