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An Examination of Relevant Issues in Nigeria's Fiscal Federalism

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ABSTRACT

Nigeria's fiscal arrangement accommodates the interaction between the federal government and the federating units in addressing critical issues of revenue assignment from natural resources, expenditure assignment, regional disparities, and national unity. Fiscal federalism in Nigeria is characterized by extensive vertical and horizontal intergovernmental relations which have become very contentious and volatile because subnational governments lack financial autonomy in the current fiscal architecture. This paper examines such issues as principles of fiscal federalism, decentralization and assignment of revenue from natural resources, decentralization and corruption, decentralization, regional disparities and national unity.The practice of fiscal federalism has been contentious in Nigeria due to overbearing influence of the federal government, unevenly distribution of endowment of natural resources, the sharing of which often puts considerable strains on national unity, and also tends to generate rivalries between the constituent units of the Nigerian state. The paper concludes that if the country can establish the institutions that will make decentralization work with a reasonable degree of efficiency, then decentralization can be a good policy.

Keywords: Fiscal Federalism, Fiscal Decentralisation, Federation, Financial Autonomy

INTRODUCTION

Fiscal federalism refers to the principles that define the allocation of fiscal powers and responsibilities to the various tiers of government, while fiscal decentralization is the actual practice of the principles of fiscal federalism (Ewetan, 2012). There has been an increasing interest in fiscal decentralization in recent years because of the potential benefits to be derived from its adoption. Fiscal decentralization occurs when sub-national governments are given power by the constitution or particular laws, to tax and carry out spending activities within clearly established legal criteria (Ewetan, 2013; Tanzi, 1995). International organizations, such as the World Bank, the African Development Bank, the Asian Development Bank, the Organization for Economic Cooperation and Development, and the Inter-American Development have not only been urging member countries to embrace decentralization, but they have also been supporting and encouraging countries to carry out decentralization of their economies as part of a broader strategy for enhancing public sector efficiency (Amagoh and Amin, 2012). Decentralisation no doubt has become the centerpiece of national discourse in many developing and transition countries that now see decentralization as a strategy of fast tracking balanced development of their economies.

Nigeria is a plural country that can be aptly classified as a federal state. The dismal performance of the public sector since the first half of the 1980s has brought to the front burner the issue of fiscal federalism which has remained dominant and most contentious in Nigeria's polity (Ewetan, 2013; 2012). There is a general consensus in the literature that the Nigerian federation is quite highly centralized, and this has been linked to long years of military rule (Elaigwu, 2007). The current fiscal arrangement promotes indolence, militancy and insecurity, false population figures, corruption, and enriches a parasitic class. The aim of this paper is to examine some of the relevant issues in Nigeria's fiscal federalism and proffer practical solution in resolving these issues.

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CONCEPTUAL CLARIFICATION

Federalism

Federalism is essentially about government structure in the multilevel sense rather than within a particular level of government, to cater for racial, religious, linguistic and other differences, in the performance of government functions (Taiwo, 1999; Olowononi, 1999). It is a form of government in which fiscal powers and functions are shared in a cooperative manner though the combined forces of ethnic pluralism and cultural diversity, among others, tend to pull their people apart (Tella, 1999). As an institutional arrangement it is aimed at addressing governmental problems that bothers on maintaining unity while at the same time preserving diversity (Okeke and Eme, 2013). The concept of federalism implies that each tier of government is coordinate and independent in its delimited sphere of authority and should also have appropriate taxing powers to exploit its independent sources of revenue (Vincent, 2001). Wheare (1963) believed that each level of government should have adequate resources to perform its function without appealing to the other level of government for financial assistance. He emphatically argued that:

"If state authorities, for example, find that the services allotted them are too expensive for them to perform, and if they call upon the federal authority for grants and subsidies to assist them, they are no longer coordinate with the federal government but subordinate to it. Financial subordination makes an end of federalism in fact, no matter how carefully the legal forms may be preserved. It follows therefore that both state and federal authorities in a federation must be given the power in the constitution each to have access to and to control, its own sufficient financial resources. Each must have a power to tax and to borrow for the financing of its own services by itself."

Amuwo (1998) defines federalism as an arrangement whereby powers within a country are shared between central and components unit in such a way that each unit operates directly within their jurisdiction. The cardinal principle of federalism is that no level of government is subordinate to another, though there must be central government for this exercise.

Fiscal Federalism

Fiscal federalism is essentially about the allocation of tax powers and expenditure responsibilities to the various tiersof government (Ewetan, 2011; 2012; Taiwo, 1999; Alade, 1999; Oates, 1972; Tanzi, 1995). Aighokhan (1999) defines fiscal federalism as public finances of a state with more than one fiscal tier, notably federal, state and local governments. Tella (1999) states that fiscal federalism refers to the financial relationships between and among existing tiers of government, it includes the system of transfers or grants by which the federal government shares its revenues with the state and local government. Olowonini (1999) views fiscal federalism as a set of fiscal activities, relations and interactions, rights and demands by and among the various governments in a federation. According to Musgrave (1959) and Oates (1972) fiscal federalism is the division of public sector functions and finances in a logical ay among multiple layers of government. They added that the finances and functions of government should be shared in a manner that it is acceptable by all involved.

Principles of Fiscal Federalism

According to Agiobenebo (1999), a number of principles have evolved to shape and guide intergovernmental fiscal relations practiceand these include:

- The Principle of Diversity: One justification for the adoption of federal system is its ability to ensure unity in the midst of extreme diversities. So, the fiscal system must provide scope for variety and differences to adequately accommodate the supply of national, regional (state) and local goods.
- The Principle of Equivalence: The various public goods have different geographical incidence. Therefore, allocation efficiency requires the equalization of locational advantages arising from interjurisdictional differences with a combination of taxes and public goods and services
- The Principle of Centralized Stabilization: The principle requires the use of fiscal instruments for achieving macro policy objectives (stabilization, growth etc.) at the national level.
- Correction of Spillover Effects: Efficiency of fiscal federalism requires that interjurisdictional externalities be corrected for by the system. Spillover effects or interjurisdictional externalities refer to externalities (both benefits enjoyed and harm suffered) by residents of different geo-

political units because benefit regions for many public goods and services are open entities. This requirement is intended to control for what in the fiscal decentralization literature is referred to as the "central city exploitation thesis", exploitation of economies of scale and the rationale for intergovernmental grant

- Minimum Provision of Essential Public Goods and Services: This principle requires that fiscal federalism should assure all citizens that, irrespective of where they reside, they will be provided with a minimum level of certain essential public goods and services.
- Fiscal Equalization Principle: Where there exists pronounced regional imbalance in resource endowment and concomitant differences in fiscal capacity of subnational governments, there is the need for some degree of fiscal equalization among the federating units of government to ensure minimum level of public goods and services.
- The Efficiency Principle: There are two dimensions in a two-step hierarchy in this principle. Firstly, it requires that, collectively, the set of criteria directing fiscal federalism should ensure efficiency in the allocation of resources in the Paretian sense. Secondly, it requires that the collective principles of intergovernmental fiscal relations should ensure that each level of government maximizes its internal revenue earnings at minimum tax efforts with optimal distortion.
- The Principle of Derivation: This principles requires that the components units of a federation be able to control some of their preferences in their own way with their own resources
- The Principle of Locational Neutrality: Locational choices of both individuals and firms are influenced by interregional fiscal differences. Thus, some degree of locational interference appears to be an inevitable cost of fiscal federalism given the natural differences in resources endowment, differences in tax capacity and effort. Policy therefore seeks to minimize the distortions arising from such interference.
- The Principle of Centralized Redistribution: The redistribution function of fiscal policy through progressive taxation and expenditure programmes should be centralized at the federal level. This principle is mutually consistent with that of the principle of locational neutrality. In other words, if the redistribution function is decentralized, it can lead to distortions in locational decisions

These principles are not mutually consistent. Consequently, they are difficult to adhere to simultaneously. Some of them conflict, thus calling for trade-offs. For example, the principle of diversity may conflict with that of locational neutrality with attendant socio-economic costs. Also the principle of equalization of fiscal position, in an attempt to achieve horizontal equity, may conflict with the efficiency criterion because of the disincentive effects of the former on labour mobility and productivity.

RELEVANT ISSUES OF FISCAL FEDERALISM IN NIGERIA

A couple of decades ago fiscal federalism used to be a topic of marginal importance in most countries and in economic literature. The world was broadly divided into federal states and unitary states and there were hardly any countries that planned to move from one to the other of these categories. In recent years, however, perhaps as a result of globalization and deepening democratization, combined with rising incomes, centrifugal forces seem to have been put into action in many countries. These forces have generated growing demands for increasing degree of fiscal decentralization.

Decentralization and the Assignment of Revenue from Natural Resources

Petroleum a major natural resource in Nigeria has accounted and still accounts for more than seventy percent of government revenue base which has remained undiversified since the Nigerian state attained independence in 1960. The prominent position of petroleum in fiscal revenue has made fiscal federalism a volatile issue with serious implications for macroeconomic stability. Consequently there is increasing pressure for recognizing the right of subnational government and, in some cases, indigenous communities, to a share of natural resources (Brosio, 2006).Nigeria is a peculiar example. The assignment of revenue from natural resources to subnational levels of government tends to generate rivalries between the constituent units of the same nation, In developing countries like Nigeria with large and unevenly distributed endowment of natural resources, the sharing of natural resource revenue often puts considerable strains on national unity.

Ideally, all rents collecting instruments are available to any level of government. However, the central government is viewed as better equipped to use most of them than subnational government units. According to theory, natural resource taxes should be assigned to central government and (partly) reallocated to subnational government. In other words, revenue sharing or transfers are to be preferred over assignment of own taxes to subnational government and concurrence of taxes (sharing of tax bases). There are two reasons against assignment of own taxes to subnational government. The first is administration. The principle is that, if a tax is collected by the more efficient government, its net revenue will be higher. Usually, the central government has more personnel and better organization. This can be particularly true for developing countries like Nigeria, where professional skills and organization resources are generally scarce. Due to the complexity of administration, the resource rent tax, the most efficient tax for natural resource extraction, is out of reach for most subnational government tax administration offices. Also natural resource tailored profit/income taxes present huge problems. The information required for taxing profits from natural resources is no more complex than that required for standard corporate taxation, but profit/income taxes are not recommended in general for subnational government. The more so as subnational governments, particularly in developing countries, do not have the sophisticated tax administration required for dealing with big petroleum, or mineral international companies, while the size and variability of potential revenue presents additional problems.

Consideration of administrative problems restricts the range of tax instruments that might be assigned by subnational governments to production-based taxes, such as the royalties. Royalties are, in fact, the most common tax used in isolation by subnational government, or shared with the centre (Otto, 2001). The weight of the administration argument is somewhat reduced when one considers that all governments can contract other governments and private firms, or can join efforts to acquire the capabilities that are required to use efficient/sophisticated rent extraction instruments. One can observe an increase in outsourcing of tax administration in the real world. The second reason advanced against local taxation of natural resources is delays and variability in revenue. This argument holds for cash flow taxes. In fact, the frequent use of royalties by central government as in the case of Nigeria is also explained by the fact that they ensure steadier revenue flows. On the other hand, it has to be recognized that subnational governments may be ready to trade off less and/or delayed revenue with other advantages stemming from direct control and administration of their taxes, such as availability of taxing powers and control of revenue. In fact, in many (especially developing) countries, allocation to subnational governments of tax revenue collected on their behalf by the centre is often delayed and uncertain (McLure, 2003).

The main reason against concurrency of natural resource taxes is vertical externalities. That is, the overall burden of a tax assigned concurrently to different layers of government is greater than the burden that would arise, if the tax instrument is assigned to one level of government only. The argument is valid mostly for royalties, which are levied jointly by the central and the sub national governments in a huge number of cases (Otto 2001). It has less weight in the case of the resource rent tax, because of its neutrality and its structure. Revenue sharing is one of the most frequent systems for sharing natural resource revenue between layers of government (Ahmad and Mottu, 2003). To be precise, revenue sharing is not an attractive general instrument for financing subnational governments, since it reduces their accountability, responsibility for the burden they impose on their citizens (as with revenue sharing, there is determination neither of tax rates, nor of the tax base). When applied to taxes on natural resources, the drawbacks of revenue sharing lose most of their weight. In fact, most of the taxes on natural resources are exported, while tax rate setting and tax base determination are better left to the central government, considering the national dimension of most natural resource extraction policies.

The ownership of natural resources is determined by constitutions, mining laws and customs. In countries with civil law tradition, the ownership of natural resources is vested in the state (so-called 'regalian system'). Countries with a common law tradition recognize (partly) private ownership. In this case, the owner of the land is at the same time the owner of the subsoil. In confederations natural resources are, on a strict legal basis, property of the members of the confederation and not the confederation. The reason is that nothing is due to the confederation, which does not derive from a decision of each distinct confederated state. Federal and non-federal states offer a great variety of constitutional solutions concerning the level of government to which ownership of natural resources is recognized. However, a somewhat clear historical pattern emerges. When subnational governments are institutionally strong, or are independent units within a federation or confederation and the existence of large quantities of natural resources is common knowledge, then constitution assigns full or partial ownership of natural resources to subnational levels of government.

Ownership may also be determined by constitutional interpretation. Canada and Nigeria provide a good illustrating example of the latitude of possible interpretations of constitutional arrangements and of the conflicting views about possible amendments. In the case of Nigeria in the 1960s ownership on natural resources was vested in the regions but this arrangement changed with the emergence of petroleum as the major earner of foreign exchanged. In contrast Canadian non-petroleum-producing provinces have traditionally adhered to the principle that Canada is a single nation and a single community. If so, natural resources belong to the federal government and should be shared among all provinces, and/or used for country-building purposes. Petroleum-producing provinces held the opposite view, stressing the primacy of provincial communities and that national majorities are not entitled to take natural resources away from where they are produced. Interregional conflicts regarding access to petroleum, for example, in Nigeria, have generated secession, civil war and the frequent demise of democracy. Petroleum-producing federated states have traditionally taken the view that 'equitable fiscal federalism' implies the adoption of the derivation principle (resources stay where they are produced). Non-producing states have brought forward the principle that equitable fiscal federalism means redistribution (Ikein and Briggs-Anigboh, 1998).

Clearly, political economy considerations play an important role in the decision on whether or not to share natural resource revenues with subnational governments, and the form that these arrangements might take. However, it should be recognized that disparities in revenues from natural resources, and problems arising from them, can be alleviated through equalization mechanisms. This is what central governments do, especially when the constitution, or previous agreements that are not easily renegotiable, grant a large share of revenues to producing jurisdictions. Equalization can be done for efficiency reasons, and also for equity reasons. In addition to efficiency and equity reasons, the intensity of the equalization may be dictated by political convenience, and for keeping countries together and for nation building.

Decentralization and Corruption

A greater percentage of economic woes that has bedeviled the Nigerian economy are attributable largely to public sector corruption. Corruption is defined as the exercise of official powers against public interest or the abuse of public office for private gains. Existing literature on fiscal federalism identifies potential connection between fiscal federalism and corruption. Others have attempted to refute the existence of such a connection or even to argue that decentralization reduces corruption. In recent years, concerns about corruption have mounted in tandem with growing evidence of its detrimental impact on growth and development (World Bank, 2004). Corruption is shown to adversely affect GDP growth (Mauro, 1995; Abed and Davoodi, 2000), to lower the quality of public infrastructure (Gupta et al, 2000; Tanzi and Davoodi, 1997) and health services (Tomaszewska and Shah, 2000; Triesman, 2000), and to adversely affect capital accumulation. It reduces the effectiveness of development aid and increases income inequality and poverty (Gupta et al. 1998). Bribery, often the most visible manifestation of public sector corruption, harms the reputation of and erodes trust in the state. Although statistics on corruption are questionable, the available data suggest that it accounts for significant proportion of economic activity. For example, in Nigeria, 'questionable' public expenditures at the local government level between 1999 and 2007 quoted by the Executive Chairman of Economic and financial Crime Commission (EFCC) in 2008 amounted to 300 billion naira.

As a result of this growing concern, there has been universal condemnation of corrupt practices in Nigeria, leading to the trial and removal of public officers and political office holders. Moreover the Nigerian government and development agencies have devoted substantial resources and energy to fighting corruption in the last political dispensation (1999-2007) and in recent years. Even so, it is not yet clear if the incidence of corruption has declined perceptibly. The lack of significant progress particularly during the Obasanjo led democratic government can be attributed to the fact that the strategies are simply folk remedies or 'one-size-fits-all' approaches and offer little chance of success. For strategies to work, they must identify the type of corruption they are targeting and tackle the underlying, country-specific causes, or 'drivers', of dysfunctional governance. In Nigeria, public sector corruption, is a symptom of failed governance, depends on a multitude of factors such as the quality of public sector management, the nature of accountability relations between the government and citizens, the legal framework and the degree to which public sector processes are accompanied by transparency and dissemination of information. Efforts to address corruptions that fail to adequately account for these underlying 'drivers' are unlikely to generate profound and sustainable results.

Huther and Shah (1998), using international cross-section and time series data, find that fiscal decentralization is associated with enhanced quality of governance as measured by citizen participation, political and bureaucratic accountability, social justice, improved economic management and reduced corruption. Arikan (2004) reconfirms the same result. De Mello and Barenstein (2001), based upon cross-country data, conclude that tax decentralization is positively associated with improved quality of governance. Fisman and Gatti (2002) find a negative relationship between fiscal decentralization and corruption. Gurgur and Shah (2002) provide a comprehensive theoretical and empirical framework on the root causes of corruption. They identify major drivers of corruption in order to isolate the effect of decentralization. In a sample of industrial and non-industrial countries, lack of service orientation in the public sector, weak democratic institutions, economic isolation (closed economy), colonial past, internal bureaucratic controls and centralized decision making are identified as the major causes of corruption. For a non industrial sample that included Nigeria, drivers for corruption are lack of service orientation in the public sector, weak democratic institutions and closed economy. Decentralization reduces corruption but has a greater negative impact on corruption in unitary countries than in federal countries. Gurgur and Shah (2002) conclude that decentralization is confirmed to support greater accountability in the public sector and reduced corruption.

The reason for hypothesizing the existence of a relationship between decentralization and corruption is that, in many countries, local institutions are less developed than national ones. Many reasons account for this; for example, the brightest people tend to join the central government where their long run career prospects are better. Furthermore, national governments are likely to be able to create more transparent and more accountable public administration. For example, foreign technical assistance is generally directed towards the central government and not the local governments. These considerations have to be qualified, of course. In countries such as Australia, Canada, Germany, and the United States the educational level of the population is so high that highly trained people are available for all levels of government and thus, good institutions can be created by all. However, in many countries the best and most talented people join the national government while the quality of the local government institutions tends to be lower particularly in developing countries like Nigeria.

Decentralisation helps to break the monopoly of power at the national level by bringing decision making closer to the people, strengthens government accountability to citizens by involving citizens in monitoring government performance and demanding corrective actions. Decentralisation as a means of making government responsive and accountable to the people can help reduce corruption and improve service delivery. In Nigeria for example efforts to improve service delivery has forced the authorities to address corruption and its causes. However there is still the need to pay attention to the institutional environment and the risk of local capture by elites. In the institutional environments typical of some developing countries, when in a geographical area, feudal industrial interests dominate and institutions of participation and accountability are weak or ineffective and political interference in local affairs is rampant, thus localization may increase opportunities for corruption. Thus rule of law and citizen empowerment should be the first priority in any reform efforts. Localization in the absence of rule of law may not prove to be potent remedy for combating corruption.

In all, a small yet growing body of theoretical and empirical literature confirms that decentralisation offers significant potential in bringing greater accountability and responsiveness to the public sector at the local level and reducing the incidence of grand corruption.

Decentralization Regional Disparities and National Unity

Nigeria, Canada, United States of America, Germany, India, Sudan, Spain, Switzerland- what can this diverse set of countries possibly have in common? One important answer is that each contains within its boundaries a significant territorially-based group of people who are, or who consider themselves to be, distinct and different in ethnicity, in language, in religion, or just in history (ancient or recent) from the majority of the population. Indeed, contrary to the common view-one might say mythology-that the most 'natural' nation state is a unified and homogeneous entity, such 'fragmented' countries

(Bird and Stauffer, 2001) - are found throughout the world. Homogenous nations are more the exception than the rule. Indeed, heterogeneity, whether ethnic or economic, is a more common feature of most countries than homogeneity. A second important characteristic of many countries is that they exhibit, to greater or lesser degrees, some ‘asymmetry’ in the way in which different regions/states is treated by their intergovernmental fiscal systems. While such asymmetry is often most obvious in formal federal countries, it comes up, sometimes in surprising ways, in almost every instance. The way and manner asymmetry is managed could help or hinder the maintenance of an effective nation state. The Nigerian experience in this regards clearly illustrates this with respect to an effective nation state.

‘Effectiveness’ in this context may be understood in two ways. The first relates to the normal focus of economic analysis of public sector activities: how effectively, efficiently, and perhaps equitably are public services provided throughout the national territory? The second meaning however lies well outside the normal field of expertise of economist: what are the connections between how a country’s public finances are structured and how a nation state that is fragmented holds together in the first place? This question has risen to the forefront of public policy analysis in an especially important way when it comes to creating ‘new’ countries out of regions torn by civil conflicts, such as those in Bosnia-Herzegovina and Sudan. But it is also much on the minds of those concerned with public policy in such long-established countries as Canada, Spain and Belgium. In many fragmented countries like Nigeria, it is not surprising that the majority group dominates politically. Sometimes, a particular minority exerts more influence, perhaps because of its wealth and power, perhaps owing to historical factors. The rising influence of Oil producing region in Nigeria is a typical case in point. The creation of the Ministry of Niger-Delta by the Yar’adua administration at the federal level is recognition of this rising influence in the political landscape. Occasionally, as may be argued to be the case, even in such large federal countries as the United States and Brazil, important overriding factors may suppress much or all of the potential political influence of ethnicity. Even in countries such as Germany, Brazil and in highly decentralized countries, such as Nigeria, Indonesia, or Russia if natural resources are discovered in one region, problems often arise because that region will attempt to claim for its own use the revenue from the resources discovered. This leads to political problems and occasionally, even to conflicts and wars between regions. It also creates problems for the income redistribution role of the government. One of the major functions of a national government is precisely to redistribute income from richer regions and individuals to poorer regions and individuals through the broadly uniform provision of public goods and services. When the income levels of regions within a country are relatively equal, and when important natural resources are not concentrated in one region, it is easier to have a well-functioning decentralized system. However, when income levels are vastly different among regions, so that one region has to subsidize another on a significant scale, it becomes much more difficult to pursue an effective policy of income redistribution. When the difference in income is due to the concentration of natural resources in one region, in a decentralized environment the difficulty in pursuing such a policy can become particularly great.

Whatever one thinks of, whether decentralization in any of its myriad forms helps or hurts macroeconomic and political stability is clearly a key question in many countries. It seems unlikely, however that anyone can answer that question in the abstract. As in the case of the economic arguments for and against decentralization, something like the Nigerian legal decision of ‘Littoral States’ is perhaps the best that can be offered at present with respect to such political arguments. None the less, it is clearly political factors that are leading even long-centralized countries like the United Kingdom to decentralize (particularly with respect to Scotland). Similar decentralization to varying degrees can be seen in many countries- for example, Italy (South Tyrol), Finland (Aland Islands) and even France (Corsica). Ethnic groups in countries as different as Nigeria (Ogoni), China (Tibetans and Uighurs), Iraq (Kurds), Turkey (Kurds), and Georgia (Abkhaz and Ossetians) are seeking similar (or greater) territorial autonomy. In part in response to such factors, decentralization is on the leading edge of policy. Developed countries, developing countries, transitional countries, federal countries and unitary countries wherever one looks some kind of decentralization is taking place, or is at least being discussed.

Given the issues the study has examined, the study concludes that, if decentralization is an important economic objective for a particular country; if the country can establish the institutions that will make decentralization work with a reasonable degree of efficiency- institutions related to tax policy, tax administration, expenditure management systems, budgets and so forth, especially institutions that allow the central government to transfer resources to local government with some assurance that the resources will be used effectively and for the purpose for which they are passed on, then decentralization can be a good policy.

CONCLUSION AND RECOMMENDATION

The paper examined relevant issues of fiscal federalism in Nigeria which are critical to the growth and stability of the economy. Intergovernmental fiscal relations practice in Nigeria has been shaped and guided by a number of principles which include principles of, diversity, equivalence, fiscal equalization, efficiency, derivation, locational neutrality, centralized distribution, centralized stabilization, and minimum provision of essential public goods and services. The practice of fiscal federalism has been volatile and contentious in Nigeria due to unevenly distribution of endowment of natural resources, the sharing of which often puts considerable strains on national unity, and also tends to generate rivalries between the constituent units of the Nigerian state. The issue of public corruption in Nigeria has attracted so much attention in the literature because of its detrimental impact on growth and development. Decentralization offers significant potential in bringing greater accountability and responsiveness to the public sector at the local level and reducing the incidence of grand corruption. Consequently, it has been suggested that fiscal decentralization could be used to reduce corruption in Nigeria.

Given the issues that have been examined, the paper recommends that, if the country can establish the institutions that will make decentralization work with a reasonable degree of efficiency, then decentralization can be a good policy.

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