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Intergovernmental Cooperation and Economic Policymaking in Post-1999 Nigeria: Towards A New Political Economy of Federal Governance

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Abstract

This paper reviews the institutional framework for policymaking in post 1999 Nigeria, with specific reference to federal practice and its effects on economic policymaking under the Fourth Republic. It argues that the federal institutional framework for making public policy generally, and economic policy in palticular, has faced challenges of intergovernmental coordination and cooperation since the return to civilian rule in] 999. Thus, as the scope of what constitutes state's spheres of competence "increase, to incorporate many issues hitherto considered federal jurisdiction, the central government is finding more of its policies being challenged by increasingly assertive state governments. The paper contends that this changing institutional environment has produced significant negative consequences for the coordination of economic policies, and by extension good economic governance in Nigeria, making it necessary to focus more on improving inter govern menial coordination, including on the ways to induce Nigeria's centrally funded states and localities to contribute more effectively to national macro-economical stabilization, planning and reform, than on decentralisation.

Introduction

Federal ism was formally introduced in Nigeria In 1954[1] under the Lyttleton constitution when the country was restructured into three quasi-self governing and administered regions (Ekanade, 2008). The political system was subsequently formalised with the adoption of the 1960 Independence Constitu-tion which paved way for country's independence from Britain on October 1, 1960. Since then the Nigerian federal system has witnessed several important transformations and oscillated between two poles, beginning with the development of a highly decentralised system during the immediate post-independence period, otherwise known as the First Republic (1960-1966), through the emergence of a *de facto* unitary system under successive military

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regimes (1966-1979 and 1984-1999). The 1979 or Second Republic constitution was somewhere in between these poles. This changing environment of federalism naturally brought different consequences for politics in the country in general and policymaking particularly.

Under Nigeria's centralising military regimes, for instance, policymaking naturally took a *top-down approach*, to borrow the phrase of Thomas Dye (2001). Military logic of strong centralisation of power and *espirit de corps* had ensured that major national policies (including economic policies) were more often than not decided by the central government and imposed on states and local governments, without provoking arguments or open resistance from the sub-national authorities, who were directly controlled by the central government. This stands in sharp contrast to the *bottom-uppolicymaking-system* practiced under the highly decentralised first republic (19601966), where each of the three regions (which later increased to four in 1963) controlled their resources and took charge of socio-economic development in their respective domains (Osaghae, 1998). These regions were not only constitutionally in charge of socio-economic development in their respective domains but were also in position to interfere in and obstruct major policy decisions and programs, including economic policies falling within the constitutional powers of the federal government.[2]

The return to constitutional rule in May 1999 was completed with the adoption of a federal constitution. However, contrary to popular expectation, this did not return Nigeria to the kind of highly decentralised federal system practiced during the first republic (Harnischfeger, 2008: 87). Instead, the military inspired 1999 constitution ushered in a different form of federal arrangement, more similar to the type seen during the Second Republic (1979-1983).[3] In theory, the 1999 constitution gives the federal government a lot more powers, especially with respect to the management of economic resources, compared with what was obtainable in the first republic or in more matured federations such as the United States of America (US) where the states are assigned considerable economic powers.[4] This situation has led some critics to dismiss the current arrangement as 'a unitary system in a federal gab', while calling for its replacement with 'true federalism', where each region will control its resources and pay agreed taxes to the central government as it was during the First Republic.[5] Others have described the system as a *highly centralised but nominally federal' system (Ejobowah, 2005:180).

Many of these critics of Nigeria's current federal practice assume that federalism, especially in its classical mode, provides a much more secure political foundation for economic development, than the alternative political arrangement, the unitary system of government, which, according to them, Nigeria more-or-less operates. Yet, in practice, Nigerian states and local governments retain substantial powers, including powers to implement or frustrate important federal policies and projects in their respective domains.[6] Further, as evidence from contemporary Nigeria also shows clearly, it is not in every case that federalism supports sound economic management-. Instead, in some cases, federalism complicates economic policymaking and planning. In a nutshell, this paper seeks to examine Nigeria's policy environment since 1999, with particular reference to the implication of federalism on the economic reform programmes initiated and pursued by the federal government during the period 1999 to 2012. The rest of the paper is divided into three sections. The first section reviews the existing literature on federalism and its relationship with economic policymaking. The second focuses on Nigeria's recent experience with federalism, especially the nature of intergovernmental cooperation and its influence on the nation's economic reform policies. The third section concludes the paper, by highlighting the major findings of the study and its policy implications for the country.

Federalism and Economic Policymaking: Review of Literature

The design and implementation of appropriate public policies for economic growth and development of a nation is a very challenging and complicated exercise in every society. This should even be more so in federal system, which are more often than not, large and heterogeneous, with many competing centres of power pare, 1979; Weingast, 2000; I). Yet in areas of economic performance, a number of scholars of federalism have emphasised the considerable gains in efficiency and economic performance or the compatibility of federalism with economic prosperity (Kincaid, 2002). According to Oliver, the beneficial economic consequences of federalism result from the political decentralisation of economic authority that induces competition among the lower political units (Oliver, 1985;48).

> a market economy is essentially a non-centralised self-organising system that produces order out of repeated human interactions within a framework of law while federalism is a non-centralised self-organising system that produces order out of repeated intergovernmental and inter-jurisdictional interaction within the framework of institution or constitutional treaties. In this respect, there are important compatibilities between a well functioning federal system and a well functioning market economy (Ibid).

The interconnection between political institutions and economics has also been a source of great interest for other scholars examining the economic role of political institutions, and federalism particularly has received their great attention. For Weingast, for instance, thriving markets require not only an appropriate system of property rights and a law of contracts but also a secure political foundation that limits the ability of the state to confiscate wealth (Weingast, 1995).

A key assumption among leading federalism scholars is therefore that federalism provides a much more secure political foundation for economic development, than the alternative political arrangement, the unitary system of government. Yet the deleterious effects of federalism, especially the competitive or non-cooperative type, on economic management cannot be ignored. This fact has also been emphasised by a large number of scholars. Existing literature on policymaking in federal systems, whether they are the dual or cooperative federal model, points to the fact that federalism can have at least two deleterious consequences for policymaking.

First, in a federal state, especially the one characterised by dual federalism or where federating units enjoy wide degrees of autonomy, maintaining fiscal discipline and economic stability will likely be a key challenge. Rodden and Wibbels provide a concise explanation why this is likely to be so: *Sub-national governments [will} sometimes extract resources from the centre with little concern for the potential of their economic decisions on the federation as a whole. Thus eventually results into artificially weakened centre with humbled capacity to provide national public goods* (Rodden and Wibbels, 2002;527). These sub-national governments may also engage in reckless spending, with the federal government helpless to intervene to maintain fiscal discipline or stability.

Secondly, the above scenario may result from and be aggravated by the absence of a high degree of cooperation and coordination among the various tiers of government. Successful implementation of public policies generally, and economic policies in particular, require building consensus on policy issues *a priori*. Otherwise policy implementation will be problematic and slow. Little wonder that Rodden and Wibbels have argued that, "*it is difficult to ignore the growing evidence that federalism complicates policymaking compared to unitary system. Federal systems appear to empower regional politicians who act as veto players and exacerbate collective action problems vis-a-vis macro economic policy*'"(Ibid). Thomas R. Dye, with the American federal experience in mind, had in the same light suggested that 'federalism can allow local leaders to frustrate national policy (Dye, 1981:281), which they do not support. Some federal political systems, especially those in the developing countries or at their formative stages, appear to be generally more affected by these challenges. Nigeria's recent federal experience, which we discuss in the next section of this article, clearly shows how the challenge of intergovernmental coordination in the federation has made economic policymaking extremely difficult, not easier.

Economic Policymaking and the Challenge of Intergovernmental Coordination in Nigeria

As many scholars have argued, the hallmark of federalism is hierarchy of powers m which decision making powers are constitutionally shared between the different tiers of government, usually the federal and state governments, or in some cases the federal, state and local governments. The decision making powers includes powers to formulate and implement economic policies. Some scholars have argued that in a federal system, "the central government's authority to make economic policy must be limited, and that this authority must be in the hands of the lower political units, such as state or regional governments (Oliver, 1985:48). In such political systems, sometimes referred to as 'market preserving federalism', the constitution will limit national power to the task of policing sub-governmental encroachment on the common market and to providing national public goods, such as defense and a stable macroeconomic regime. Power to regulate markets will be reserved for the sub-national governments (i.e. states or regional authorities). Competition among lower governments competing for factors of production and tax revenue limits the discretionary authority of these governments (Weingast, 1995:3).

In practice, however, the extent of economic decision making powers allocated to the different tiers of government in a federation usually depend on the unique peculiarities (history, national ideology, experience, socio-cultural mix, etc.) of the federation in question. In other words, this varies from one federal state to another and even from one period to another within the same federation. In the United States for instance, the federal government's powers to make economic policies, vis-a-vis those of the state governments, is much more limited, than say in Nigeria. Some of the few areas the US federal government is empowered to intervene in are subsidies (mainly to shipping), tariffs, disposal of public lands, patents and currency. On the other hand states are constitutionally empowered make policies in the areas as wide as property law, estate and inheritance law, commerce laws of ownership and exchange, banking and credit laws, labour and union laws, insurance laws, land use laws and water and mineral resource laws (Lowi, 2009:6).

In Nigeria by contrast, the federal government's powers to make economic laws or policies are much more preponderant, compared to those of the states (Suberu and Agbaje, 1998:335). The Second Schedule (part 1) of the current 1999 constitution list these powers to include powers to regulate aviation; banks and banking, bills of exchange and promissory notes, borrowing of moneys within and outside Nigeria (by the federal and state governments); control of capital issues; currency, coinage and legal tender; customs and excise duties, designation of securities in which truest funds may be invested; exchange control; export duties; fishing and fisheries (other than fishing and fisheries in rivers, lakes, waterways, ponds and other inland waters within Nigeria); insurance; labour (including trade unions, industrial relations, conditions, safety and welfare of labor, industrial disputes, prescribing a minimum wage for the federation or any part thereof and industrial arbitrations (Federal Republic of Nigeria, 1999). Others include maritime, shipping and navigation; mines and minerals (including oil fields, oil mining, geological surveys and natural gas); nuclear energy, patents, trademarks, trade or business names, industrial designs and merchandise marks; posts, telegraphs and telephone; railways; taxation of incomes, profits and capital gains; tourism; trade and commerce (particularly between Nigeria and other countries); control of the prices of goods and commodities designated (by the National Assembly) as essential.

The centralising tendencies inherent in the current Nigerian federal system are explained, according to some authors, by the fact that it developed under military autocracy (Suberu and Agbaje, 1998). The limitation of this view is demonstrated by the fact that after more than 12 years of civilian rule, no concrete step has been taken to restructure the federal constitution in ways that devolves more powers to the federating units. Thus, despite glaring lopsided distribution of constitutional powers, recent move to amend the 1999 Constitution did not include provisions aimed at decentralisation.[7]

But, however lopsided the distribution of economic policymaking powers may be in

Nigeria, and contrary to what early writers like K.C. Wheare (1963; Oliver, 1985) believe,[8] the fact of federal life, marked by the overlapping of economic and political responsibilities among ties of government, especially in the area of policy implementation, eventually made cooperation between all the tiers of government essential, if not inevitable, for good economic governance In a federation (Bohte and Meier, 2000:36). This necessity or inevitability of some form of intergovernmental cooperation in policymaking, or cooperative federalism, has long been accepted in mature federations like the US (Zimmerman, 2001), and even some scholars in Nigeria, especially those focusing on cooperation and conflict in national-state, state-slate, and state-local relations (Egwakhide, 2004). But among federal policymakers in Nigeria, the idea has not found much attraction, as a review of some Nigeria's post-1999 economic reform policies will reveal.

Genesis of and Rationale for Nigeria's Economic Reform Policy Programme

On May 29, 1999, Nigeria successfully completed a transition to democratic rule. This was after sixteen years of catastrophic military rule which, in spite of abundant natural resources, including petroleum and gas reserves estimated at some 36,6 billion barrels and 1840,6 billion cubic feet in 2006 respectively (Afrique relance, 1 June 1999) and huge and relatively talented population,[9] had turned a once promising nation into one of the poorest countries on earth. At the end of military rule in May 1999, Nigeria's economy was characterised by a crushing foreign debt, rising inflation, depreciation of the national currency, massive capital flight, decaying infrastructure, depressing wages, endemic poverty and chronic political instability. Several media, government and international publications released during the period confirmed this ugly scenario.

In a 2004, the United Nations Industrial Development Organisation (UNIDO) estimated that Nigeria was the worst affected by capital flight in sub-Saharan Africa, with over $100 billion in private capital held overseas in 1999 (Poussart-Vanier and Courade, 2006:60), representing around 70 percent of total private capital *(The Punch*, Lagos, 24 July, 2004). This amount excludes some $63 billion in non-monetary assets held by Nigerians abroad *(ThisDay*, Lagos, 20 October, 2003.). It is well known fact that until recently, Nigeria also struggled to be considered one of the *Highly Indebted Poor Countries*, deserving to be considered for debt cancellation. After accumulating $36 billion in external debts in 2006,[10] she managed to secure a favorable treatment from the Paris Club, which wrote off $18 billion. This was after the country paid a whopping $12.4 billion and agreed to continue a broad range economic and anti-corruption reform policies *(The Guardian*, Lagos, March 23, 2005).

During the same period, independent estimation of poverty level (those living on less than a dollar a day) in the country hovered between 60 and 70 percent. Although recent figures are much lower, standing at 54.4 percent in 2004. This is still very high compared to past figures. It was only 27.2 percent in 1980, 46.3 percent in 1985, and 42,7% in 1992 (Federal Office of Statistics, 2005:65). According to the same official sources, national literacy level for men in 2004 was only 50,67 percent. The figure are even more pathetic for the women: 37.75 percent (Ibid, 100). Other indices of human development follow similar trends. According to the world Bank, per capitals income in Nigeria stood at $390 in 2004, well below the African average in the same period ($600) and even Nigeria's per capital income In 1980 ($1000). Similarly, life expectancy was said to be only 44.9 years only (World Bank, 2004).

The pre-1999 era was also characterised by weak growth and poor economic management, including the boom-and-bust mode of economic management, encouraged by the dominance of oil in the Nigerian political economy. Over the period 1992 to 2002, annual GDP growth averaged about 2.25 % (Okonjo-Iweala and Osafo-Kwaako, 2007). With an estimated population growth of 2.80 % per annum, this implied a contraction in per capita GDP over the years that resulted in a deterioration of living standards for most citizens. Inflation levels were high, averaging about 28.94 percent per annum over the same period (Ibid). Another major challenge for the Nigerian economy was its macroeconomic volatility driven largely by external terms of trade shocks and the country's large reliance on oil export earnings. For the period 1960 to 2000, Nigeria's economy was said to rank among the most volatile in the world (World Bank, 2003). Public expenditures also closely followed current revenues, implying that fluctuations in oil earnings were transferred directly into the domestic economy. Fluctuations in public expenditure reflected both the over-reliance on oil earnings and weak fiscal discipline by previous governments, but more importantly, poor coordination between federal and state governments in budgeting and expenditure (Nigerian National Planning Commission, 2004; p.xiv). Volatile fiscal spending also tended to cause real exchange rate volatility. In particular, fiscal expansions financed by oil revenues often resulted in domestic currency appreciation, creating Dutch-disease concerns and reducing competitiveness of the non-oil economy (Barnett and Ossowski, 2001).

On assumption of office in May 1999, therefore, one of the tasks that confronted the newly elected government of President Olusegun Obasanjo, was how to quickly alleviate the suffering of his countrymen and restore economic and political stability through a comprehensive and well targeted political-economic reforms. Within months of taking power, the Olusegun Obasanjo led government announced series of reforms measures seeking to restore Nigeria's lost economic glory. The reform measures introduced by the federal government to tackle these problems, especially between 1999 and 2007, had both political as well as economic dimensions. During his first term in office (1999-2003), President Olusegun Obasanjo focused on ensuring political stability, strengthening democratic practices, and tackling corruption. This constituted essentially the political dimension of the reforms. During his second term (2003 - 2007), the administration moved to consolidate whatever achievement was recorded during its first term, by pursuing a comprehensive economic reform program based on a homegrown strategy known as the National

Economic Empowerment and Development Strategy (NEEDS).

The objectives of NEEDS were addressed in four main areas: macroeconomic reform, structural reform, public sector reform and institutional and governance reform (Okonjo-Iweala and Osafo-Kwaako, 2007). However, the first two areas, that is the macroeconomic and structural reforms constitute the core economic reforms. The macroeconomic reforms comprised of policies targeting improved growth performance, curtailment of inflation and exchange rate fluctuations, improvements in debt management, transparent and more efficient revenue and budget management. Structural reforms, on the other hand, comprised of policies directed at strengthening the civil service, the banking sector, and trade policy, as well as a general liberalisation of the economic through privatisation of hitherto inefficient state companies (Ibid.). The NEEDS program emphasised the importance of private sector development to support wealth creation and poverty reduction in the country (Nigerian National Planning Commission, 2004).

Immediately the administration's reform programmes were launched, many Nigerians, especially those who were familiar with the challenges of policymaking in a federal system, started to raise questions about the role the states and local governments would be expected to play in the diffusion and implementation of these policies. Would the states be forced to adopt these federal policies wholesale or partially? Or would they be expected to design their own independent economic policies, giving their wide local peculiarities? If they refuse to adopt these policies, what will happen? Apparently aware of its limited powers, the federal government took some subtle steps to encourage these sub-national authorities to toe its line of economic thinking, by for example ensuring that the development of NEEDS at the federal level was complemented by individual State Economic Empowerment and Development Strategies (SEEDS), which were prepared by all 36 Nigerian states and the Federal Capital Territory (FCT) themselves. This was done with assistance from the federal government and international development and donor agencies. Similar efforts were reproduced at the local government level, under the appellation, Local Economic Empowerment and Development Strategies (LEEDS). Problems however surfaced at the implementation stages.

NEEDS was clearly an attempts to institutionalised political economic reform in ways never seen before in Nigeria. But as it soon became clear, its goals could only be attainable if the three levels of government can cooperate effectively to see to its judicious implementation. Unfortunately, as the implementation of the NEEDS policies reached advanced stages, evidence emerge pointing to the substantial disparities in the level of commitment to policy reform across the 3 tiers of government in the federation. While the federal government moved swiftly to implement major aspects of the reforms (civil service reforms, tax reforms, privatisation, public procurement and budget management reforms, anti-corruption reforms, etc.), many of the states continued to drag their feet or even took deliberate retrogressive steps that contradicted the stated policy objectives of the federal authorities.

This "new political economy of federal governance" contributed in many ways to blunt the effectiveness of President Obasanjo's key economic reform policies.

The extent to which Nigeria's evolving political economy of federal governance shaped policy choices and outcomes under President Obasanjo were particularly perceptible in the positions taken by the various levels of government other issues of taxation and tax reforms, privatisation of state enterprises, and strict adherence to budgetary projections and campaign against corruption. A review of these three issues will reveal a glaring divergence in the degrees of commitment to policy reform across the three tiers of government, that is, the difficulty of achieving intergovernmental coordination in economic policymaking and implementation in a federal system, such as Nigeria.

Taxation and Tax Reforms: The Challenge from Lagos State

One of the policy issues that received the greatest attention under the Obasanjo led federal government's economic reform programme was certainly the question of reforming Nigeria's tax system and the Federal Inland Revenue Service (FIRS), the primary agency saddled with the responsibility of working out a transparent and efficient tax system that optimises tax revenue collection. The goal of these reforms was to boost government's tax revenue[11] which will in turn allow for higher levels of investment in infrastructure that will promote economic growth and wealth creation. In its determined effort to improve the tax system, the Obasanjo led government conceived a number of legal reforms, such as the amendment to the major tax law and the sponsorship of a proposed FIRS autonomous bill. The FIRS operations was modernised with improved welfare schemes, integrity and ethical standards, reasonable financial and administrative autonomy and protection of the tax payers' right through professionalism, taxpayers' education, as well as affording taxpayers fair hearing and prompt adjudication and refund mechanism. In 2007, and shortly before the end of his tenure, President Olusegun Obasanjo rewarded the effort of the service with the signing of four out of eight tax bills which are expected to boost the efficiency of the service in delivering on its mandate (Iwori, 2008).

Under the leadership of Mrs Ifueko Omoigui, the agency registered some progress, especially with its aggressive and strict approach to tax collection that has yielded a much higher levels of tax collection, and an efficient electronic system and nationwide networking that has made the process easier. However, its efforts were undercut in many other areas, notably the lack of clarity on taxation powers and the problem of deliberate multiple taxations. The lack of clarity on taxation powers of each level of government caused unnecessary encroachment on the powers of one level of government by another (*Nigerian Tribune*, Ibadan, 11 May, 20112:9). The deliberate imposition of multiple taxes involved the imposition of several taxes on a single business concern by all of the three tiers of government (federal, state and local), without due consideration for profit level (Kwakwa *et al*, 2008:33). Although this was not a totally new phenomenon, under the Fourth Republic it however became even more pronounced. The chief culprits in this case being Nigeria's 36 state governments and their local governments. Lagos state, the economic nerve centre of nation, being where majority of the real sector organisations are situated, was the most implicated in this practice (*The Guardian*, Lagos, 7 October, 2005). Fueled by its massive infrastructural improvement projects, this state has moved aggressively to beef up its internally generated revenue through taxation. But its actions also left some huge negative impact on the national economy, especially the real sector, which was looked up to ensure wealth creation, employment generation and poverty reduction, as enunciated in its NEEDS programme. In some recent empirical studies, multiple-taxation was consistently sighted by Nigerian manufacturers as one of the binding constraints to growth in Nigeria (Kwakwa *et al*, 2008; 33; Ukeje *et al*, 2009). Thus, the practice of multiple-taxation by states and local governments was not only contrary to the federal government's economic policy, but also a drag on economic development.

The example of Lagos state governed since 1999 by an opposition party may create the impression that inter-government conflict over tax or revenue issues is driven by party affiliation, since the central government is controlled by another party. This is however not the case, as the conflicting positions taken by the federal government and some PDF states, notably Delta and Akwa Ibom, over the issue of privatisation of state owned enterprises has shown.

Privatisation of State Enterprises: The Example of Delta and Akwa Ibom

Arising from a long history of inefficiency and pressure from leading international financial institutions (Obasanjo, 1999), the federal government under President Olusegun Obasanjo took quick and far reaching measures to speed up the privatisation process 12 first started by the General Ibrahim Babangida administration in the mid 80's (Biersteker and Lewis, 1997). By 2006, halfway into the President's second term in office, most of the federally owned enterprises and businesses slated for privatisation were already in private hands, leaving only the biggest and potentially the most problematic trio of the nations four refineries, electricity monopoly (then NEPA and now PHCN), and telecommunications business, NITEL. By comparison, there were 95 such firms slated for privatisation in 2000-2001 (Federal Government of Nigeria, 2000; 2001). Apart from eliminating the disincentives to potential private investment associated with state monopolies, the privatisation of these firms allowed the government to raise substantial funds. For instance, according to the Director General of the Bureau of Public Enterprises, the federal government raised $4 billion from the sale of public enterprises in 2004 alone. The sum represented the amount that was received from the sale of these unprofitable institutions, plus what would have been spent on maintaining them at the end of that year (*ThisDay*, Lagos, 28 April, 2005.).

But despite these glaring achievements, this policy did not receive much support at the lower levels of government. In contrast to the more dogged commitment of the federal government to the principles of privatisation and economic liberalisation, most of the 36 states were busy sending more contradictory signals as to their position on the issue of privatisation. Indeed, while some of the states of the federation took steps to privatise some inefficient public enterprises, many were rather busy establishing more of such enterprises. For example, in the north central state of Nasarawa, an eight-man committee was inaugurated on the 10th of November 2003 by Governor, Abdullah! Adamu, to manage the privatisation of public enterprises owned by this state. The committee actually completed the sale of seven of such enterprises at the end of 2005 (*ThisDay*, Lagos, 1 March, 2005). On the other hand, for Delta state governed by the POP, privatisation was hardly a priority. Thus, N5 billion of its 2005 budget (which totaled N106 billion) was reserved for the creation of some commercial enterprises with a view to creating employ-ment for its largely unemployed youths. The decision, according it's the state's Commissioner for Economic Planning, was based on a proviso that: *within a given period, once the businesses stabilise, then we remove our participation before political interferences begin to impart on the business* (*ThisDay*, Lagos, 12 March, 2005).

Several other states also took the Delta state option, among them Akwa Ibom state, which is also a PDP state like Delta. In 2000, the government of Akwa Ibom announced steps to establish several public enterprises, including several small scale industries and an oil company, Akwa Petroleum and Energy Ltd with four subsidiaries: APPEL Exploration and Production, APPEL Refinery, APPEL Gas and APPEL power. This was in spite of the government's claim that it is 'succeeding in attracting to the state several investors who are prepared to invest in our existing but ailing industries or in other areas where our abundant resources, both human and natural, could be maximally utilised' (*Nigerian Tribune*, Ibadan, 30 November, 2000). In other words, on the issue of privatisation of state enterprises, the federal and state governments again worked at cross purposes.

Anti-Corruption and Budgetary Reforms: The Abia and Plateau Challenge

A third issue exposing the challenges inherent in Nigeria's recent experience with federalism, especially the problem of intergovernmental coordination, and its consequences on the nation's economic reform policies, is the policy on zero tolerance for corruption and strict adherence to budgetary projections. The Obasanjo led federal government's strategy of guaranteeing economic growth through macro-economic stability, particularly price and exchange rate stability, was premised on the willingness or ability of all tiers of government to maintain or adhere to budgetary projections or 'fiscal responsibility'. This meant that only funds contained in the budget will be spent during the course of a financial year. Any unanticipated earnings are automatically saved in a special account, known in Nigeria as the Excess Crude Account (EGA).

While this policy was presented by the federal government as evidence of its determination to chart a new economic course of action for the nation (that avoids the many mistakes of the past) and hailed by the world's leading financial institutions (World Bank and IMF), it drew sharp criticisms from virtually all the 36 state governments. Indeed, this policy became a remained a major born of contention between the three tiers of government, especially between the federal and state governments, throughout the eight years President Obasanjo was in power (1999-2007). The sub-national authorities, the states especially, insisted on their constitutional right to receive and spend their own constitutionally guaranteed share of national revenue as they deemed fit. When the federal government tried to resist their demands, they all went to the Supreme Court to enforce this principle. While the litigation lasted, the federal government could not implement the policy faithfully. Failure of all tiers of government to adhere to the policy ensured that the federal government consistently failed to meet its inflation target.

Similarly, zero tolerance for corruption and financial accountability are two policies many Nigerians had long clamoured for, both of which received considerable attention of the Obasanjo government. But again, in designing its anti-corruption and fiscal responsibility policies, the federal government failed to anticipate the hostility to these policies from the 36 state governors, or indeed the 774 local government chairmen which the 1999 constitution had effectively placed under their control. The federal government under obasanjo was probably swayed by the popular assumption that, giving the damage corruption and fiscal indiscipline had done to the nation's quest to develop and the pressures daily been heaped on the incoming civilian leaders for a change of gear, everybody would be in full support of the declared mission to combat them. The fallacy in this thinking became apparent, when the governors and their state legislatures began to voice strong opposition and even took several successful measures against some of the actions taken by the central government to fight corruption and enthrone fiscal discipline (Enweremadu, 2007),

One of the first steps taken by the governors in that direction was a law suit at the Supreme Court, filed in 2000 by 32 of the 36 states of the federation 13 which delayed by a year the passage of the 2000 anti-corruption law, regarded by the administration as the principal spring board for its proposed anti-corruption fight.[14] The official position of the aggrieved states, which said they were not against an anti-corruption fight in principle, was that the federal government according to the 1999 constitution had no power to adopt or implement an anti-corruption law across the whole federation as anticipated by the anti-corruption law.[15] For these governors, the federal government could only make laws to punish corrupt practices committed at the federal level of government, and not in the states or local governments.

A similar incident occurred in November 2005, when Abia, Lagos and Delta states, with the tacit approval of many others, jointly lunched a successful suit against the federal government at the Supreme Court challenging the constitutionality of a national law *(Monitoring of Revenue Allocation to Local Governments Act 2005)* intended to punish state governors and their finance commissioners (ministers), who are frequently associated with massive diversion of local government allocations. The announcement of this law was preceded by the release of a policy guideline seeking to improve efficiency and accountability within Nigeria's 774 local governments. While the local government reform was killed by the combined political opposition of the 36 state governors, who insisted on their undivided constitutional powers to control and monitor these highly corrupt political units *(The Guardian*, Lagos, 30 June, 2003.), the *Monitoring of Revenue Allocation to Local Governments Act* was invalidated by the Supreme Court, as requested by the three states (The Guardian, Lagos, 7 July, 2006.).

The hostility of the states was carried into, or even intensified during, the implementation stages of the anti-corruption laws that survived. Indeed, It will be illogical to expect any smooth implementation of public policies whose articulation were characterised by disagreements or wrangling among key political actors in a country. With the benefit of hindsight, it is an incontrovertible fact that the implementation of President Obasanjo's anti-corruption and fiscal responsibility policies was anything but smooth and orderly (Enweremadu, 2007; ICPC, 2006). It will suffice to consider the acrimony that characterised the establishment and operations of ICPC and EFCC, two key anti-corruption agencies set up by President Obasanjo to implement provisions of the contentious anti-corruption laws.

Immediately after the inauguration of the *Independent Corrupt Practices and Other Related Offences Commission* (ICPC) and the *Economic and Financial Crimes Commission* (EFCC),[16] state governors began to lunch all kinds of verbal assault on these public institutions, which many of them had dismissed as "illegal" and "intrusive". When asked what he thought about the EFCC, one of the governors, Ibrahim Turaki of Jigawa state, responded: *What is EFCC? What is ICPC? They are not even in the constitution. I think Nuhu R ibadu* [Chairman of the EFCC] *is going beyond his brief (Daily Trust*, Abuja, 9 July, 2004). For governor Victor Attah of Akwa Ibom State, the EFCC was a *chicken without a head ... .[A] body which was set up to chase people all over the place (Vanguard*, Lagos, 4 October, 2006).

The perception of the anti-graft bodies as an unnecessary distraction in governance and a threat that must be dealt with at all cost was not a phenomenon that was limited to a few disgruntled state governors, but a widely shared one among Nigeria's 36 state governors. At the beginning of his tenure (2000-2005) as chairman of the JCPC, Justice Mustapha Akambi wrote letters to all 36 state governors soliciting their cooperation for his new organisation. Mr. Akambi's letters failed to raise the enthusiasm of their intended beneficiaries. Many of the governors promised to respond later but never did. Some governors, who responded, claimed that the ICPC was an "illegal" or "unconstitutional" body. Many others simply ignored ICPC's letter completely *(Vanguard*, Lagos, 24 May, 2002.). At the end of the day, only 4 governors promised to support the institution *(ThisDay*, Lagos, 4 April, 2005).

Apparently not satisfied with merely criticising and contesting the legality of the anti-corruption bodies set up by the federal government before the courts, action that had so far produce limited results, state governors began to take other more concrete steps aimed at undermining the effectiveness of the anti-corruption policy in their respective states and beyond. While a good number of them generally remained discrete in their battle with the agencies, a few others could not hide their disgust towards these institutions, openly banning their officials from all cooperation with the two national anticorruption agencies. This order was interpreted to mean that these officials must, on no account, answer to the invitations of these agencies for the purpose of investigations or offer any information whatsoever, including official documents and materials which could facilitate their investigations (*TELL*, Lagos, 29 November, 2004).

In some cases, confrontations between state governments and the various national anti-corruption bodies went beyond mere refusal of the state governors to make necessary facilities available to the anti-graft agencies. In certain states of the federation, the activities of both anti-corruption agencies actually resulted in varying degrees of physical violence, usually at the instigation of governors accused of corruption. The case of Governor Joshua Dariye of Plateau state is a perfect example. Between 4 and 7 December 2005, some officials of the EFCC sent to arrest a close collaborator of this governor (Miss Christabel Bentu),[17] a bank chief (the Branch Manager of All States Trust Bank in Jos) and a his younger brother, accused of helping the governor loot over 1,16 billion naira from the state treasury, were attacked by supporters and employees of the state government (*The Punch*, Lagos, 8 December, 2005). Some of the EFCC officials suffered grave bodily injuries, while their vehicles were severely damaged by their attackers. These attacks, which were allegedly directed by the governor, with the assistance of his security agents,[18] did not only result in injuries for agents of the EFCC, who were subsequently taken to the hospital for treatment, but also in the damage of all proves and escape of one of the key suspect (younger brother to the governor (*The Guardian*, Lagos, 12 February, 2006.). This conflict once again highlights the implication of lack of intergovernmental cooperation for public pohcymaking in a federal state.

The Post-Obasanjo Era: Political Alternation and Continuing Inter-Governmental Wrangling

Much of the conflict between the federal and state governments during the Obasanjo era arose from the unwillingness or inability of the federal government to support a more cooperative approach to policymaking. Rather than reaching out to state governments to build broad political consensus on federal policies, the federal government tended to want to either coerce the states to support its policies, or fell back on very strict and legalistic interpretation of the constitution and federal principles. This approach was widely attributed to Nigeria's long legacy of military rule, and more particularly to President Obasanjo's (1999-2007) own personality as a former military dictator[19]. Indeed, following the departure of the President Obasanjo in mid 2007, and the election of President Umaru Yar'Adua, who himself was replaced in December 2010 by President Jonathan, Nigeria's economic policymaking environment appeared to become more cooperative. Central dictation of policy seemed to be giving way to a much higher or favorable role for state governors or governments m economic policymaking. Several reasons are responsible for this perceived change in Nigeria's policy environment. First, many of the federal economic policies opposed by the state have been reversed (including central collection of income tax, issuance of driver's licence and vehicle registration numbers, both of which are now been handled by a Joint Tax Board, JTB) or are no longer being seriously implemented (anti-corruption campaigns in states). A second factor concerns the fact that Obasanjo's successors (Yar'Adua and Jonathan) were both state governors before their appointment as presidents, so have enjoyed some degree of goodwill from state governors. But, more so, I will argue that, today there is more realisation by the federal government that sound economic management policies cannot be implemented without the cooperation of state governments.

Yet these changes have not transformed federal-state relations in any significant way.

Indeed, many new areas of federal-state conflict have emerged, especially in recent times, dampening optimism about a new era of federal-state cooperation in Nigeria. Three of these areas are particularly noteworthy.

The first of these areas concerns the management of the Federation Account. The 1999 constitution provides for a Federation Account, jointly owned by the federal, state and local levels of government. However, the federal government, which functions more or less as the custodian of this account, is known to have regularly withdrawn funds from it without prior consultation or agreements and in breach of constitutional provisions.[20] On 12 July, 2012, picked by this arrogant breach of the law and federal principles, Nigerian state governors announced their intention to challenge in court what they perceived as illegal deductions from the Federation Account by the Federal Government. The decision was pan of resolutions taken by the governors at their meeting on the night of Wednesday, 11 July, 2012, at the Rivers State Governors Lodge, Asokoro, Abuja. The governors viewed the deduction from the Federation Account for payment of oil subsidy by the Federal Government despite their unanimous objection to the process as an affront on fiscal federalism (Amodu, 2012).

A second source of continuing conflict arose over the issue of a Sovereign Wealth Fund, established in 2011 by the President Jonathan led federal government with funds (1 billion USD at inception) drawn from the Excess Crude Account, EGA.[21] The EGA was originally established by President Obasanjo in 2004 to help Nigeria overcome the problem of budget volatility caused by erratic nature of oil revenues. But that decision itself sparked a raging controversy between the Federal Government and the 36 State Govern-ments over the constitutionality of the EGA. The dispute continued till 2008 under President Yar'Adua, when the State Govern-ments decided to go to court to compel the Federal Government to stop operating the EGA and to transfer the funds in it to the Federation Account for sharing among the three tiers of government as prescribed by the constitution. While the case was still pending in court, President Jonathan replaced the EGA with the Nigerian Sovereign Investment Authority (NSIA), otherwise known as the Nigeria Sovereign Wealth Fund (NSWF), in May 2011. This decision only deepened the crisis, as all the 36 State Governments went back to court in October 201 I, to stop the Federal Government from withdrawing SI billion from the EGA to the NSWF as "seed" money to start the operation of the NSWF (Ojameruaye, 2012).

Thus SWF has been a source of discord between the federal and state governors ever since It was established despite the fact that the federal government had made some efforts to secure the understanding and support of the state governors over the policy. After initial attempt to dialogue with the governors and get them to withdraw the case from court failed,[22] it is now left to the courts to decide the fate of this policy. Some of the states appeared indifferent or even supportive, but a few, notably Lagos state controlled since 1999 by the opposition ACN party, has spoken vocally against it *(Vanguard*, Lagos, 21 May, 2012). Many state governors have raised the issue of the lack of transparency and possible misuse for political or other non-commercial goals of sovereign wealth fund (Onion, 2011). The main issue has however centred on its legality m view of the provisions of Section 162(3) highlighted above. The governors are also not happy that while the case is before the Supreme Court, which is expected to rule on the matter on September 15,2012, the Federal Government has continued to operate the SWF.

The third policy issue to be highlighted here is the dispute generated by the federal government's decision on May 1,2011 to raise, via an Act of the National Assembly, the National Minimum wage from ^J/,500 to N18,000 following continued pressure from organised labour. The constitution grants the federal government exclusive powers to iix the National minimum wage. Specifically, item 34 of the exclusive legislative list in the constitution supports this. Secondly, the decision was also an extremely popular policy, giving the precarious economic condition of Nigerian workers. Yet, this action elicited strong resistance from many state governments. Only few governors welcomed the policy.

The governors gave two main reasons for refusing to support the policy. First, many state governments say they are unable to pay the new wage because they are short of cash and should they be forced to pay, there will be little or no fund for development projects. As Lagos state Governor Babatunde Fashola reveals, the state governments are pushing for new revenue formula that would cede more funds to states and the local government councils *(The Guardian*, Lagos, 2 May, 2011: 12). Benue state governor, Gabriel Suswam, confirmed this during the may 2011 celebration, when he said "only an improved revenue sharing formula would make the implementation of minimum wage possible" (Ibid). Secondly, and perhaps more importantly, "the states also accused the Federal government of unilaterally entering into an agreement on the new wage with the workers *(T)je Guardian 2* May, 2012:12). Thus, during a meeting organised to mark Workers Day, governor Fashola of Lagos state announced that his government "will no longer be forced into paying any wage that it did not participate in negotiating as the fund to pay is not given to the state" (Ibid:3).

The consequences of this disagreement were several. First, many workers were denied the benefits of the new wage and thus continued to suffer economic deprivation, as most governors dragged their feet. For instance, after a year Oyo State continued to refuse to pay the N18,000 minimum wage (*The Guardian 2* May, 2011: 1). It took several weeks of strike called by Oyo workers for the Oyo state government to approve £319,113 as minimum wage. The state government noted that this put the state monthly wage at M4.6 billion, excluding pension to ex-workers (*Sunday Tribune* April, 2012). States like Enugu and Anambra in the South East have not also being implementing it (^*The Guardian 2* May, 2012:12). Second, as the Nigerian Labour Congress president Abdul Waheed Omar noted, the position of the governors also resulted in "a gross violation of the constitution of the Federal Republic by those state government" (*7?}e Guardian 2* May, 2012:12)

Conclusion

For many years, Nigeria's economic policy was seldom subjected to critical debate among the three tiers of government, an importam condition for effective policymaking in a federal state. This was partly because for several decades the country's politics had been dominated by the military. Under these centralising military regimes, policymaking naturally took a *top-down approach*, as military logic of strong centralisation of power and *espirit de corps* ensured that major national policies (including economic policies) were more often than not decided by the central government and imposed on states and local governments, without any resistance from the heads of these sub-national authorities, usually controlled by the central authorities. Since the return to constitutional rule in 1999, however, a "new political economy of federal governance" has altered the nature of policy-making and implementation, with attendant inter-governmental wrangling and conflicts. Thus, despite all its centralising tendencies, and the avalanche of intergovernmental bodies which has been created to serve as platforms for building cooperative federal-state relations,[23] Nigeria's current federal arrangement has not made policymaking or implementation faster and smoother, as will be the case in a military regime or a unitary state.

On the basis of the foregoing analysis, at least three observations can be made about Nigeria's federal practice since 1999. First, although the current constitution grants the federal government overwhelming powers to initiate and control major economic policies, effective implementation of national policies still requires inter-governmental cooperation. Second, having grown used to a dominant role in policymaking, the federal government has shown unwillingness or incapacity to sufficiently carry the states along in policy-making, often seeking to dictate policy to the states. This has created frequent conflicts and wrangling among the three tiers of governments. Thirdly, the frequent conflicts and wrangling observed between the various tiers of government over choice of policy and strategies for implementation has reduced the effectiveness and impact of policies, especially economic reform policies initiated by the federal government following Nigeria's return to democracy in 1999. The states have proved adept at frustrating, if not blocking policies they oppose. So thai, after eight in office, the outcome of these policies was largely disappointing.

The above findings raise several important questions. Should Nigeria abandon her federal system in favor of a unitary system in order to achieve economic development? If Nigeria opts to retain federalism, how can she reform her federalism in order to ensure that federalism is practiced in such ways that support long-term economic growth and development? Apart from democracy, federalism is perhaps the most important pillar of Nigeria's political system. For although the model has tended to complicate economic pohcymaking, in recent times, the system has been central to political stability. Any suggestion that it be abandoned outright is therefore a non-starter. What kind of reforms will then be necessary to make Nigeria's federal system development oriented? Some scholars and politicians have called for more decentralisation, maintaining that Nigeria's federal government's powers to make economic laws and policies are excessive, touching practically every sectors of economic life, thus making the state unviable. Some of these advocates of decentralisation also believe that Nigeria's problem with corruption is largely caused by this dominance of economic power by one level of government (i.e. the federal government). These groups have suggested a reduction of the powers given to the centre, while increasing those of the slates and perhaps local governments.

While not campaigning against any possible re-assignment of some of these functions currently constitutionally assigned to the federal government in favour of the states or localities, it is obvious that economic development will only be possible if the newly empowered sub-national units will not be invested with the same endemic corruption that has frustrated all development policies initiated by the central government. Indeed, a close observation of the financial activities of the lower tiers of government shows that these units have not been free from corruption. What most campaigners for "true federalism" have failed to realise is that any mechanical application of decentralisation is bound to reinforce exiting institutional cultures and administrative practices (lonita, 2005; 261). Experience from other decentralised states and indeed a study of Nigeria's own states since 1999, suggests that, at least, new and more innovative ways need to be found to ensure that any future reforms to Nigeria's federal system are matched with greater accountability at the lower levels of government (Devas and Grant, 2003; Doig and Mcivor, 2003). In our view, therefore, much of Nigeria's federal problem in the Fourth Republic arose not from limited decentralisation per see but from its inability to induce and sustain cooperation or coordination among the three tiers of government. With this observation in mind, we therefore suggest that, the country should as a matter of priority focus more on improving intergovernmental coordination, especially ways to induce Nigeria's centrally funded states and localities to contribute more effectively to national macro-economical stabilisation, planning and reform, than on decentralisation.

Endnotes

1. Before 1954, the Nigerian state was administered by the British colonial power largely as a unitary state.
2. The conduct of national census for economic planning and location of federally owned industries, were good examples. Such policies

often required at least the support of a majority of the regions, if they must have any chances of been implemented successfully. Otherwise the regional government could simply ask their loyal representative in the federal parliament to block any adoption of such polices.

3. The federal arrangement under the Second Republic was still evolving or in its formative stages when the military intervene on the 3 December, 1983, putting an end to the whole experiment.

4. Although the economic powers of the central government in the United States has grown steadily in recent times, in response to new economic challenges, substantial economic powers are still exclusively reserved to or shared with the states in key areas, contrary to the current federal arrangement in Nigeria. For instance, the states have powers to regulate mtrastate commerce, grant business licenses, etc. This is why the US federal system is also referred to as 'market preserving federalism' (Ejobowah, 2005). See Article Four and Six of the Constitution of the United States of America.

5. At independence, although the federal government collected mining royalties and rents, it paid to each region a sum equal to 50 percent of the proceeds of any royalty derived from mining and exploration activities in each region (Aiyede, 2009: 258).

6. Areas where federal policies have been contested by Nigerian states since 1999 'include the constitutionally guaranteed principle of a secular Nigeria state. This was rejected by 12 Northern states who pushed for the adoption of shari a based laws in 2000. The second is the issue of federal monopoly of policing powers rejected with the states' active support for ethnic militias and vigilantes (Lagos state for instance maintained the Oudua Peoples Congress,OPC, while states like Abia and Anambra, supported the Bakkassi Boys (Harnischfcger, 2008)).

7. Deputy Senate President and Chairman Senate Ad-hoc Committee on the Review of the 1999 Constitution, Senator Ike Ekweremadu at some point indicated that the next constitution review exercise, programmed for 20111 -2015, will focus on state creation, fiscal federation, state police and devolution of powers. See Kunle Akogun, Nigeria: National Assemby), Gazettes Constitutional Amendment, *ThisDay*, Lagos), 22 July, 2010.

8. For these writers, separating the constitutional powers of the various tiers of governments, or dual federalism, will ensure that powers are not easily abused, as one tier will act to check the excesses of the others and vise-versa. Another benefit of the theory of dual federalism, according to its proponents, is the rapid economic growth that could result from the political decentralization of economic authority that induces competition among the lower political units (Oliver, 1985).

9. The population of Nigeria is estimated at 140 millions according a 2006 national census.

10. According to figures published by the Central Bank of Nigeria on its website, Nigeria's external debt was only $2.2 billion in 1978, before rising to $13,1 billion in 1982 and then $33,1 milliards 1990. When domestic debts were added in 2005, the amount rose to $57 billion for 85% GDP), according to figures published by the Ministry of Finance.

11. The advent and steady dominance of crude oil as the basis of fiscal accumulation in Nigeria in the 1970's significantly altered the political economy of Nigeria. In sum it changed the focus, basis and context of the country's taxation regime, from a previously broad-based reliance on the no 1-oil sector as the tax base of the nation to oil revenues and related derivatives.

12. The IMF and World Bank notably, made a sell-off of Nigeria's corrupt and inefficient public enterprises a condition for granting a debt relief to Nigeria in 2005.

13. This action was taken regardless of the fact that a great majority of the states in question were under the control of the same political party (POP) as Obansanjo.

14. This law, the *Corrupt Practices and Other Related Offences Act 2000* which came into effect: on the 13 July 2000, contained several important provisions, among which was the one establishing an *Independent Corrupt Practices and Other Related Offences Commission* (ICPC), charged with the responsibility of investigating and prosecuting corrupt public officials at all levels of government

15. Section 7(3) of the Act provides that the Act shall apply to 'all public officers in Nigeria', defined as « [Any] person employed in any capacity in the public service of the federal, state or local government, public corporations and private company wholly or jointly floated by any government or its agency, including the subsidiary of any such company whether located within or outside Nigeria and including judicial officers and serving magistrate in area/ customary courts or tribunals*.

16. The ICPC and EFCC were inaugurated in 2000 and 2004 respectively.

17. Christabel Bentu and Governor Dariye were both arrested in London on September 2,2004 for money laundering offences. They both escaped to Nigeria having been granted conditional bail by British court.

18. Governor Dariye's violent disposition was later confirmed by a public warning he issue to the EFCC: *^Enough is enough for EFCC:... I am from Mushereand we eat dogs, my brothers from Pankshin eat dogs also, likewise Anaguta and Berom; if these dogs [EFCC] come from Abuja again, we will eat them. When next they come, they might end up in our pot of soup**.

19. He is widely seen as a very authoritarian individual.

20. For instance, Section 162(3) of the Nigerian Constitution provides that: *Any amount standing to the credit of the Federation Account shall he distributed among the federal and State governments and the local government councils in each State on such terms and in such manner as may be prescribed by the National Assembly.* This is why the Federation Account is also known as the Distributable Pool Account.

21. Sovereign wealth fund is a pool of money derived from a country's reserves, which is set aside for investment purposes that will benefit the country's economy and citizens. The fund is a major component m the country's attempt to hedge against budget volatility, build infrastructure, combat unemployment and provide economic growth.

22. When the case came up for hearing at the Supreme Court in March 2012, the FG pleaded that the court should allow it to seek an out-of-court settlement with the SGs.

23. Typical examples are the National Economic Council presided over by the Vice-Presidem and including all 36 state governors, and the Joint Tax Board, which include representative of federal and state tax collecting agencies.

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