Fiscal Imbalance And Conflict In Nigeria: A Way Forword.

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Abstract

In this study, a unique statistic presented by Hunter in 1974 and 1977 is used to empirically analyze the causes of conflicts in Nigeria. The main causes of disagreements in developing countries, according to the literature, are social service disparities and economic heterogeneity. This study, however, looks at the causes of economic heterogeneity or imbalances across the federal, state, and local governments in Nigeria utilizing data from 2015 to 2020. The state vertical imbalance (SVI) and corresponding vertical imbalance (CVI) methodologies were used to look into the reasons for conflicts in Nigeria. As a result, it can be seen that Nigeria's federal, state, and local governments all have serious fiscal imbalances. In order to solve the issue of vertical fiscal imbalances, which is one of the major causes of violence in Nigeria, the paper recommends that Nigeria create an intergovernmental equalization transfer system.

Key Words: Fiscal imbalance, Conflicts, Economic Heterogeneity, intergovernmental Equalization transfer.
JEL Classification: H7, H71, H73, H76,and H77

Introduction:

To enable sub-central governments (SCG) to provide their inhabitants with equivalent levels of public services at comparable tax rates, financial resources are allocated to SCG. Fiscal balance is the term used for this. Fiscal balance can be viewed as the ideal complement to fiscal decentralization because it tries to address inequities and any imbalances that may result from sub-central fiscal autonomy. In the 1940s and 1950s, different fiscal balancing mechanisms initially developed in a number of federal countries. In order to reduce financial inequities, the majority of OECD nations now implement redistributive policies. Fiscal balance is important because it is commonly utilized in both federal and unitary countries, because its objectives and processes are frequently spelled out in the constitution, and because it serves as the cornerstone of national fiscal policy.

Nevertheless, if "imbalance" is the problem, balance would seem to be the solution. But because of the drive for true federalism, Nigeria is today engulfed in strife and a crisis. The lack of true federalism is demonstrated by the debate over the technique for dispersing revenues and the need for resource control. As a result of state imbalances or inequities and marginalization of minority groups inside the state, a request for state restructuring or the creation of other states has emerged, providing for equal geographic and economic strength to soothe minority groups' anxieties. It is not Nigeria's problem, but it is a major issue in every community to manage the current condition in a way that ensures a fair distribution of riches and avoids conflicts and wars.

Ethnic and religious strife is still a big issue in the modern world. Nevertheless, there is enough data to show that this conflict is not, as is usually believed, the inevitable result of ethnic diversity, "age-old ethnic hatreds," or a "clash of civilizations" (Huntington, 1993). Over the past 10 years, Nigeria's federation has been plagued by conflicts on many different fronts, including political, religious, economic, and administrative. This study aims to determine whether economic heterogeneity in Nigeria is the primary source of the budgetary imbalance that ultimately leads to violence. It also attempts to explain the notions of vertical fiscal imbalance and horizontal fiscal imbalance, as well as to compare these notions for the three tiers of government in Nigeria—federal, state, and local—in order to better grasp these concepts. The paper will also briefly go into Nigeria's use of intergovernmental fiscal transfers to correct these imbalances.

*2. **Concepts and measurements of fiscal imbalances***

It appears that federal nations are more prone to a fiscal imbalance. While state and local governments are in charge of more expenditure than they are able to pay for through sources of income directly under their control, the federal government normally collects the majority of taxes.

A vertical fiscal imbalance is produced by the disparity between own-source revenues and expenditures at various levels of government (VFI). At the state level of government, there will also always be areas that are wealthier than others. "Horizontal fiscal imbalance" is the phrase used to describe the variation in the resources that governments have access to at the same level (HFI). Even while these problems are widespread, they are more prominent in federal societies and are frequently the subject of political debate. This essay examines the significance of these fundamental principles and provides some guidelines for municipal, state, and federal *governance. It can be challenging to measure them exactly as well. Prior to going on to the comparative study of the following part, we will thus talk about these two ideas as well as the function of intergovernmental fiscal transfers in addressing the problems of fiscal imbalance.*

2.1 Concepts of fiscal imbalances

Vertical fiscal imbalance

Balance would appear to be the answer if "imbalance" is the issue. Therefore, it should not come as a surprise that the idea of vertical fiscal imbalance, as described by (Boadway and Hobson, 1993), is frequently brought up as though in a perfect federation each level of government's own-source revenues should be sufficient to finance the expenditures for which it is responsible without having to turn to intergovernmental fiscal transfers. Each level of government should have distinct, independent revenue sources that are sufficient to finance the expenditures allotted to that level, no more and no less, according to how vertical fiscal balance is typically conceived. As a result of this issue, experts have created more precise VFI metrics.

For instance, Hunter offered three of these "coefficients of vertical unbalance" (1974; 1977). The so-called "shared taxes," the "conditionality" of federal transfers, and the net borrowing of subnational governments were all essentially taken into account in varied degrees by these estimates. When he developed these metrics, he sought to demonstrate the extent to which the fundamental allocation of revenues and expenditures allowed "governments at each level to command the financial resources necessary for them to carry out their expenditure responsibilities and to be held accountable for both spending and taxing decisions" (Mathews, 1980). Hunter made an effort to differentiate between financing sources that were governed by the federal government and those that were governed by states. To accomplish this, he relied on three different assumptions: that unconditional transfers did not impact state autonomy in one way, that they did in another, and that shared taxes also infringed on state authority in some way. Hunter's assessments of this "autonomy" might, of course, be contested, and they soon were (for example, by Thimmaiah, 1976). But despite the inherent subjectivity of this tactic, it is nonetheless employed in many forms throughout the literature (for example, Rezk, 1998). As a result, every VFI metric based on openly accessible, comparable fiscal data throughout the globe is essentially and unavoidably questionable to some degree. However, given that these are the only options accessible, and as is further discussed at the beginning of section 3, they are used in this work with the appropriate caution.

2.1.2 Horizontal fiscal imbalance(HFI)

We pointed out that HFI may be seen as the VFI that is effectively "left over" after the richest subnational government fixes its revenue expenditure imbalance problem. On the other hand, HFI is commonly discussed using terminology that is substantially dissimilar from that of VFI. The definition of VFI as it is generally used is actually called into significant doubt when HFI is closely examined. As we've already indicated, VFI is essentially assessed in terms of the real gap between subnational expenditure and the available subnational own-source revenues for those spending. However, if horizontal fiscal balance is interpreted in the same gap-filling meaning as vertical fiscal balance, it is inferred that adequate transfers are required to balance the actual expenditures and income of subnational governments (including transfers)

The main argument for decentralization is completely ignored when actual subnational government spending is equalized in terms of per capita (raising all to the level of the richest subnational government). It also disregards regional variations in requirements, expenses, and *revenue-generating capacity. Equalizing actual spending would deter subnational efforts to raise revenue as well as subnational efforts to restrict expenditures because those with the greatest expenditures and the lowest taxes would profit the most from the system. These issues are undoubtedly widespread. The potential that any transfer, even one made merely to "bridge the gap," can have negative incentive effects on subnational fiscal decisions is less generally acknowledged, just as each transfer, regardless of its purpose, contributes to the solution of the VFI problem. Accordingly, the appropriate incentive design of transfers becomes, regardless of their stated purpose, an essential component of intergovernmental fiscal relations in every country.*

When HFI, or "equalization," as it is commonly called, is discussed, three distinct issues are frequently conflated. First off, a lot of authors usually describe the equity features of intergovernmental transfers as though their main objective is to minimize wealth disparities between areas, probably mainly in the United States (the only federal nation without general equalization transfers).

Contrarily, it is crucial to recognize that interpersonal equity is different from interregional equity. Transfers to developing countries can occasionally help the poor. They might not always. Intergovernmental transfers are not likely to be the best or most efficient way to achieve this goal if decreasing poverty is the main purpose of policy. Because these transfers have their own rationale, they shouldn't be evaluated solely or largely in terms of how they will affect persons with different income levels.

Second, the relationship between such transfers and the problem of "regional imbalance" tends to dominate public discourse on intergovernmental transfers in all nations. Regional imbalance is usually believed to be the goal of transfers despite being inadequately defined in the majority of cases. No matter how it is conceived of—as distinct regional growth rates, unemployment rates, or other economic variables, or as variations in per capita income between states or localities—this remains true. Even if it might not always be a wise policy objective to eliminate such regional inequities, nations are, of course, free to make the effort if they so desire.

Federal nations are more likely than unitary nations to use intergovernmental transfers as a tool for policy in any such endeavor (Bird, 1982). As a result, it is common to see a significant indicator of "need" in transfer formulas be some measure of the degree of economic success in recipient regions, such as per capita regional income. However, depending primarily on them might swiftly result in undesirable economic incentives when undertaking intergovernmental transfers. Additionally, just as in the case of interpersonal equity as a policy objective, it is important to distinguish the objective of reducing regional disparity from the constrained notion of fiscal equalization between government income (or spending), which appears to be most directly applicable to transfer design.

In this third meaning, equalization transfers may have two different explanations. To provide decentralization the basis it needs and bring everyone closer to being on an equal footing in terms of incentives, the first step is to roughly equalize the budgetary capacities of territorial organizations (Feldstein, 1975). A second rationale could be that all local governments, even the tiniest and most underfunded ones, are capable of offering a fundamental set of local services. The second of these goals might not seem like a great idea from a purely economic perspective.

But without such transfers, small rural communities usually find themselves unable to offer any meaningful local services.

Most nations with formal equalization transfers avoid revenue pooling and generally aim to equalize either the capacity of local governments to provide a certain level of public services or the actual performance of this level of service by local governments in order to at least partially avoid the disincentive problem mentioned above (Bird and Smart,2002).

It is more appropriate in federal situations because State governments are given constitutional responsibility over expenditure and revenue. Capacity equalization's goal is to give each local government adequate money (from own-source revenues + transfers) to offer a specific level of services. (Differences in service prices may or may not be taken into consideration.) Transfers are chosen based on their potential to raise revenue rather than on actual revenue, just like assessed values for property taxes or measured tax bases for other taxes. Because these payments are lump sum (inframarginal) in nature, local governments won't be deterred from boosting taxes as long as revenue capacity is reliably evaluated, which is rarely an easy process in practice. Each and every financial choice relating to spending and taxing remains entirely the responsibility of local governments.

Only when the grant's standard revenue-raising capacity is set at the level of the wealthiest local government will full equalization—defined as eliminating all gaps—be achieved. Budgetary restrictions in most nations result in lesser standards, such as the typical local governments' ability to collect taxes. Communities with below-average capacity will always be at a disadvantage in such circumstances. Even from this brief exposition, it is readily evident that HFI is a considerably more challenging concept than VFI. As a result, precise measurement is considerably more challenging.

We have only made a small effort to present a few indications of the spectrum of regional difference in Nigeria and to briefly discuss how those inequalities may develop or be addressed over time in the current study.

2.2 Theoretical Evidence

The formula for distributing the fiscal resources that are jointly created and controlled by the federating units is one of the main issues in a federating system. As is the case in Nigeria, public finance departments usually take part in allocating financial resources among the federal, state, and local levels of government. In this regard, specialists in public finance have concentrated on evaluating the degree to which fiscal federalism upholds the core concepts of horizontal justice and efficient resource allocation.

This study is based on the Buchan Fiscal Residuum Theory because of the aforementioned issue as well as the various fiscal federalism issues. According to Buchan (1982), considering the whole fiscal pressures on an individual is a more perceptive method to address the issues with fiscal federalism. According to Buchan, this is evaluated in terms of the Residuum Theory by determining the ratio between the value of the public services given to the individual and their contributions. According to Buchan, the Fiscal Residuum should be positive for high income individuals or states and negative for low income persons or states given the existing status of the income distribution. According to Buchan, having equal fiscal residuals across persons is both a necessary and sufficient condition for the accomplishment of horizontal equity.

The horizontal equity for a particular citizen or state is influenced by the relative richness or poverty of a state within a nation, or a locale within a state. The amount of money needed in the former to match the quality of public services offered in the latter will be much higher, burdening inhabitants of the relative poor state with a higher tax rate. Buchan believes that such a situation is undesirable. According to him, it is incompatible with the ideas of fiscal equality and resource efficiency.

However, Buchan was compelled to accept the second-best alternative of intergovernmental fiscal adjustment, which he named "Unconditional Equalization Grants," due to the constitutional constraint that some federating states, including the United States and Nigeria, place on this form of transfer.

The significance of this theory to this subject may be observed in the instance of Nigeria, where certain states are very poor at generating revenue for the government while others are quite rich at it, especially the oil states, industrial states, and commerce states. Remaining perspectives would lead one to believe that some of the nation's poorest states shoulder a larger proportion of the tax burden. However, the unconditional equalization hypothesis contends that fiscal federalism, which will support equitable development across the states, may be implemented with equal participation by all of the federating states.

2.3Empirical literature Review

This part of the essay examines a range of works of literature, both in Nigeria and beyond. Olaopa states that Ogundari, Akindele, and Hassan (2012) looked into how economic reforms, a response to the effects of the global financial crises, have increased public unrest and redefined the socioeconomic and political attitudes, interests, and composition of Nigeria's increasingly complex social strata. Secondary data were employed in the analysis. It was discovered that economic reform measures from the past and present both failed to guarantee democracy's benefits and worsened the socioeconomic situation of the public. The immense misery and unfulfilled expectations caused by the reform led to apathy among the populace, who lost faith in the administration. In order to safeguard their existence, they chose to reside outside the state and now seek shelter in economical and political risk. Successive administrations have adopted a range of policies in an effort to address these problems, albeit with varying degrees of success. They are now under pressure to carry out more forceful socioeconomic and political reforms or else risks seeing their authority further erode. The report continued by arguing that a specific transformative empowerment policy agenda is necessary in order to effectively address these issues. In 2001, Léonce Ndikumana investigated the effects of ethnic conflict in Burundi and Rwanda. He discovered that these nations' economies had been seriously damaged, and their fundamental budgetary imbalances had gotten worse. Government revenue has dropped as a result of the tax base's contraction and the capability for tax administration. The distribution of finances by governments has changed from capital and social spending to military and security spending concurrently. The article argues that a fiscal strategy that puts the military first and a lack of political legitimacy go hand in hand. A narrow-based government often invests more in security to improve its prospects of survival. This tactic has adverse social and economic implications. There's a chance that the economy will eventually collapse into a "militarized poverty trap." Therefore, for budgetary stability, institutional change required democratic accountability.

Ewetan, Ike, and Ige (2015) also investigated some important issues with Nigeria's fiscal federalism. Fiscal federalism has been contentious in Nigeria due to the overbearing influence of the federal government, the unequal distribution of natural resources, whose sharing frequently places significant strains on national unity, and the propensity to foster rivalry between the constituent units of the Nigerian state. Decentralization can be a beneficial policy, the report says, provided that the country can put in place the institutions necessary to ensure that it operates with a reasonable level of efficiency.

A high degree of fiscal decentralization is required in Nigeria due to the unfair revenue sharing formula and the need to address the contentious issues surrounding the contentious fiscal federalism in Nigeria, according to research by Ejeh and Orokpo (2014) on the pattern of constitutional division of revenue powers and responsibilities among levels of government in Nigeria. A full examination of the fiscal system is demanded, and it also emphasizes the political pressures for, among other things, a constitutional amendment to alter the fiscal arrangement and just remuneration for those who build the "commonwealth."

James (2014) studied the Niger Delta Resource Control Conflict and Nigerian Federalism. Nigeria's numerous nation-building crises since 1960, the worst of which was the civil war that raged from 1967 to 1970, as well as the current calls for a general redefinition of the Nigerian federation through a sovereign national conference show that federalism has not been successful in the country. Undoubtedly, the need for resource control by federating units has been one of the fundamental characteristics of Nigeria's dysfunctional federal system. An further phenomena, militant nationalism, has emerged as a result of resource control protests in the Niger Delta. In this essay, we contend that the failure of successive Nigerian governments to uphold the fundamental principles of federalism, particularly those that concern control of resources by federating units in which such resources are domiciled, has contributed to the various crises of nation-building, most notably the armed conflict in the Niger Delta. This essay intends to analyze the historical roots of the resource control struggle and the attendant militant nationalism in the Niger Delta in order to assess its consequences on sociopolitical and economic sustainability within the region itself as well as Nigeria as a whole.

However, Udeuhele (2018) examined Nigeria's intergovernmental relations and budgetary imbalance as a roadblock to both physical and political development. The existing fiscal arrangements have remained a divisive and challenging subject in all of these, even though it is recognised that Nigeria's intergovernmental relationship has its roots in historical, economic, political, geographical, cultural, and social aspects. The study concludes that fiscal federalism is an undeniably successful economic strategy that may be used to maximize the provision of public services, promote political growth, and support macroeconomic stability. The success of fiscal decentralization depends on clarity in revenue and expenditure authorities and duties. The government must immediately implement changes to raise tax revenues to subnational governments and modify expenditure responsibilities to strengthen their effectiveness in providing public services. This would address the current fiscal mismatch at subnational government levels.

In their 2018 study, Asadu and Nwofia examined Nigeria's fiscal federalism and unequal revenue distribution. Unbalances in the federal system of Nigeria have repeatedly been a source of conflict in that nation. An ex-post facto research design and qualitative expository analysis were used to explore the nature and character of Nigeria's fiscal relations and their consequences for *socioeconomic growth. The economy of Nigeria is heavily dependent on consumer spending, which leaves it overly exposed to shocks from the outside world. The country must give the sub-national governments greater funding in order to encourage an integrated, bottom-up, people-oriented growth. According to the paper, the federal, state, and municipal governments should each receive 35, 40, and 25 percent of the vertical income allocation formula. In order to encourage rivalry between the levels of government, the derivation principle should also be given top priority in the horizontal allocation formula. While maintaining the battle against corruption, diversifying the economy will help it become less overly dependent on federal spending.*

Adeleke (2011) Taxation is one of the most significant and simple sources of money for any government because of the government's inherent power to impose taxes and levies. Nigeria's tax system has always been inadequate due, in large part, to imprecise tax base data and an excessive reliance on oil revenue. Nigeria should pay more attention to taxation than ever given the volatility of oil prices and the severe repercussions of the recent financial crisis.

The mobilization and use of domestic resources heavily depend on the problem of fiscal federalism. Nigeria's three levels of government—federal, state, and local—each with their own funding sources, expenses, and duties. All decisions, especially those affecting resources, are decided at the national level despite the fact that the country adheres to federalism, and vertical income allocations favor the federal government more. Both vertical and horizontal revenue in Nigeria are controversial.

The key issues, advancements, and challenges related to taxation and fiscal federalism in Nigeria are covered in this essay. The study also offers some suggestions that would ensure fiscal assignments that are agreeable to the federal and sub-national governments and encourage a rise in tax income.

The nature of the financial ties between Nigeria's three tiers of government was examined by Ibrahim and Adamu (2017). Since it was found that revenue allocation is an issue in all federations, each one has its unique strategies in place to address the imbalance. It was discovered that the problem still persisted despite many tries. This is the case because to the federal Account's reliance on the majority of federating units. Reviewing the pertinent provisions of the constitution and advising that political considerations be subordinated to the sustainability of new government divisions were among the recommendations.

Nancy also researched the origins, challenges, and prospects of violent wars and civil unrest in west Africa (2014). There have been casualties and concerns for the humanitarian community as a result of the advent of intra-state conflicts or "new wars" in West Africa. For decades, civil wars and conflicts plagued nations like Liberia, Sierra Leone, Côte d'Ivoire, and Guinea-Bissau. These conflicts were characterized by violence and nonstop slaughter. While the number of violent conflicts in the sub-region is declining, recent insurgencies in the Sahel region that have affected the West African countries of Mali, Niger, and Mauritania as well as low intensity conflicts surging within relatively stable countries like Ghana, Nigeria, and Senegal send alarming signals about the potential for violent conflicts to resume both domestically and regionally. These conflicts frequently center on a variety of issues, including poverty, human rights abuses, bad government, corruption, marginalization of certain races and ethnic groups, and the spread of small guns. Despite the efforts of numerous parties, including the ECOWAS, *civil society, and the international community, conflicts still exist in the sub-region and their settlement is frequently protracted. This essay argues that as the roots of these bloody battles and social instability are not well understood, West Africa will probably continue to suffer and bear the burden of these bloody wars. Stanley (1986) looked on the vertical budgetary imbalance of the federal state. A theory of vertical fiscal imbalance in federal states (VFI) is established to differentiate between long-run and short-run imbalances as well as between normative and positive interpretations of the notion. The analysis is done in the setting of a simple three-sector model, where the division of national output across sectors is caused by the interaction of a public choice process and a general resource restriction. Based on welfare theory, the paper proposes definitions of long-run and short-run VFI.*

3. METHODOLOGY AND MEASUREMENT OF FISCAL IMBALANCES

Hunter (1977) laid the foundation, and throughout a six-year period, the researcher will create and calculate various VFI data. Data for Nigeria are available in the National Bureau of Statistics and CBN Statistical Bulletin, and they cover the years 2015 through 2020. The choice of the scope was also influenced by the surge in violence and unrest in Nigeria at the time. The study aims to investigate the root and immediate causes of conflicts in Nigeria by assessing the vertical imbalance between the tiers of government. A variety of assumptions must be made in order to obtain the most consistent series possible, especially with regard to transactions in the subnational sector. But fundamentally, we determined three successively smaller metrics of vertical imbalances for the federal, state, and local levels of government, as follows:

Type 1: Unrestricted budget balances for the central, local, regional or State governments

$$SVI\ 1j = \frac{(revenue+grants,)j - (expenditure+lending)j\ 100\%,}{(Expenditure + lending),} \quad (1)$$

where the letter "j" stands for the collective central, state, and municipal governments,

When those above the average make negative transfers to cover the positive transfers required to bring those below the average up to the average, this is one instance where it is an exception.

Such straightforward "Robin Hood" policies are always contentious. In general, any grant system's results are unquestionably influenced by how grants are funded (Musgrave, 1961), but this important topic cannot be further discussed here.

Type 2 Budget Balances without Net Transfers Between Interest Government and Other Levels of Government

$$SVI\ 2j. = \frac{(revenue + grants)j - NIGj - (expenditure + lending)j\ 100\%,}{(expenditure + lending)^{NT}} \quad (2)$$

where NT indicates net intergovernmental transfers and NIG denotes net intergovernmental grants.

Type 3: Budget balances, excluding intergovernmental transfers and intergovernmental net borrowing (IGNB),

$$SVI^{jIII} = \frac{(revenue + grants)j - NIGj - IGNBj - (expenditure + lending)\ 100\%}{(expenditure + lending\ )j^{NT} + IGNBj} \quad (3)$$

Negative values of these statistics suggest a higher amount of vertical imbalances.

Positive values imply a surplus in a certain level of government. Values of the SVIII statistic are anticipated to be lower than values of the SVII for Central, State, and Local governments because both transfers and borrowing are taken into account. The large differences between the three types of SVI values show that transfers and/or borrowing are required to repair budgetary imbalances. These three numbers demonstrate the size of the budgetary deficits and the extent to which borrowing and transfers are used to close them when contrasted across governmental levels. Furthermore, we determined three different coefficients of vertical imbalance for Federal, State, and Local Government that reflect the percentages of sub-national expenditures covered by intergovernmental transfers (CVI1) or intergovernmental transfers and intergovernmental borrowing (CVI2) but not by own revenues (CVI3). These statistics were created using Hunter's approach (1977).

CVI : Intergovernmental transfer share in the three tiers of government expenditure:

$$CVI1 = \frac{(\text{net intergovernmental grants})_{SNG}}{(\text{expenditure + lending})^{NT}_{SNG}} \quad (4)$$

CVI2: Intergovernmental transfer and intergovernmental net borrowing share among the three tiers of government expenditure:

$$CV2 = \frac{(\text{net intergovernmental grants})_{SNG} + IGNB_{SNG}}{(\text{expenditure + lending})_{SNG}^{NT}} \quad (5)$$

CVI 3 : Share of State government expenditure that is not covered by the State government's own revenues:

$$CVI\,3 = 1 - \frac{(\text{revenue + grants})_{SNG-\,NIGSNG-\,IGNB\,SNG}}{(\text{expenditure + lending})_{SNG}^{NT}} \quad (6)$$

Higher values of these CVI show a higher degree of vertical fiscal imbalance as well as a greater reliance by state and local governments on federal loans and transfers. Because it takes into consideration the budget deficits or surpluses of state and local governments, the third coefficient is different from the first two. Despite the fact that all three formulas are helpful for illustrating time patterns in VFI, the third CVI is a little bit more unstable.

All of the aforementioned measures are presented for Nigeria for each year that is accessible between 2015 and 2020, per the research in Bird and Tarasov (2002).

4. Presentation of Results and Discussion of finding.
The data used for this analysis are lending rate, grants total expenditure, total revenue, net governmental transfer, net governmental borrowing for Federal, State and Local government in Nigeria.

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Table 1. Federal Government Data

YEARS	LR	GR	TEXP	TR	NITR	NIGB
2015	26.84	83.21	4988.86	3431.03	338.55	2111.51
2016	28.55	34.9	5858.56	3184.72	1044.84	3478.91
2017	30.99	28.88	6456.7	2847.32	434.41	5787.51
2018	30.52	11.98	7813.74	4185.64	456.46	7759.2
2019	30.72	-15.185	9714.84	4801.03	428.46	9022.42
2020	28.36	-37.156	11253.23	5898.373	433.8267	10757.95

Source: CBN Bulletin 2019 and NBS 2020

Table 2. State Government Data.

YEARS	LR	GR	TEXP	TR	NITR	NIGB
2015	26.84	18.12	3469.16	2859.02	338.55	2503260
2016	28.55	34.5	3209.24	2467.7	1044.84	2958517
2017	30.99	35.09	3702.92	2992.5	434.41	3348774
2018	30.52	35.09	4459.6	3753.38	456.46	3853436
2019	30.72	43.575	4503.28	3636.51	428.46	4106315
2020	28.36	48.725	5022.293	4104.807	433.8267	4527049

Source: CBN Bulletin 2019 and NBS 2020

Table 3 Local Government Data.

YEARS	LR	GR	TEXP	TR	NITR	NIGB
2015	26.84	83.21	1246.32	24.03	1520.01	12027.66
2016	28.55	34.9	1084.85	36.39	1851.77	19129.26
2017	30.99	28.88	1338.59	38.22	2189.12	220196.6
2018	30.52	11.98	1724.97	32.5	2643.86	291953.5
2019	30.72	-15.185	1722.53	32.6	3019.61	396038
2020	28.36	-37.156	2042.59	30.655	3445.02	500122.5

Source: CBN Bulletin 2019 and NBS 2020

Bellows are the results computed from the datas above using excel and formula given by (Hunter,1977)

TYPE 1 UNRESTRICTED BUDGET BALANCES FOR FEDERAL, STATE AND LOCAL GOVERNMENT. SVI(State vertical Imbalance)

YEARS	FEDERAL GOVT	STATE GOVT	LOCAL GOVT
2015	1209.385	2091.988	1544.942
2016	216.0649	2147.969	1841.466
2017	-481.495	2423.678	1827.533
2018	-564.116	2380.877	1371.528
2019	-1856.99	2248.812	1366.903
2020	-2556.01	1967.244	786.9229

Source: Authors Computation 2021

TYPE 2 BUDGET BALANCES EXCLUDING NET INTERGOVERNMENTAL TRANSFER

YEARS	FEDERAL GOVT	STATE GOVT	LOCAL GOVT
2015	870.8354	1753.438	24.93154
2016	-827.78	1103.129	-10.3037

2017	-915.905	-1078.74	-361.587
2018	-1020.58	-1097.06	-1272.33
2019	-2285.45	-1220.93	-1652.71
2020	-2989.84	-1274.22	-2658.1

Source:Authors Computation 2021

TYPE 3 BUDGET BALANCES, EXCLUDING NET INTERGOVERNMENTAL TRANSFERS AND NET INTERGOVERNMENTAL BORROWING.

YEARS	FEDERAL GOVT	STATE GOVT	LOCAL GOVT
2015	-1240.67	-2501507	-12002.7
2016	-4307.69	-2957414	-19139.6
2017	-6703.42	-3346785	-220558
2018	-8779.78	-3851512	-293226
2019	-11307.9	-4104495	-397691
2020	-13747.8	-4525516	-502781

Source: Authors Computation 2021

According to Hunter, positive values of this data suggest that a government layer is operating excessively, but negative values suggest that there are more vertical imbalances (1977). Because both transfers and borrowing are taken into account, SVI 3 statistic results for Central, State, and Local governments are anticipated to be lower than SVI 2 statistic values.

The large differences between the three types of SVI values show that transfers and/or borrowing are required to repair budgetary imbalances. It is easy to see how big the budget imbalances are and how much borrowing and transfers are needed to close them when these three numbers are compared across various levels. Hunter's theory is supported by the results of this investigation, which employed the state vertical imbalance formula he suggested in 1977. This shows that there is a large budgetary vertical imbalance in Nigeria between the federal, state, and local administrations, which may be one of the root causes of conflicts there throughout the research period, both locally and more widely. Since both the state and local governments saw positive numbers, suggesting that everything was in order, we discovered that there weren't many imbalances between the states when there was no constraint on budget balances at type 1. However, type 2 demonstrated a large degree of vertical imbalance between the states when net intergovernmental transfers were added from or removed from the budget. When net intergovernmental transfers and net intergovernmental borrowing were both eliminated from the third formula, the findings at type 3 nonetheless showed a large degree of vertical imbalance across the states. This illustrates how the federal, state, and local administrations in Nigeria have a bigger budgetary imbalance. According to the study's findings, vertical disparity between states is one of the major causes of conflicts in Nigeria, and the federal or central government should give the state and local governments more net intergovernmental transfers and net government grants in order to help them fill their budget gaps.

The section below contains the solutions to equations 4-6. Higher levels of these CVI, however, are related to greater vertical fiscal imbalance and show a greater reliance of state and local governments on federal loans and transfers. The third coefficient differs from the first two *because it accounts for the budget deficits or surpluses of state and local governments. Despite the fact that time trends in VFI can be illustrated using any one of the three formulas.*

Table 4.
CVI 1 Intergovernmental transfer share in the three tiers of government expenditure:

YEARS	FEDERAL GOVT	STATE GOVT	LOCAL GOVT
2015	26.85668	26.84522	26.90676
2016	28.55596	28.56075	28.58217
2017	30.99447	30.99948	31.01157
2018	30.52153	30.52787	30.52695
2019	30.71844	30.72968	30.71118
2020	28.3567	28.3697	28.34181

Source: Authors Computation 2021

Table 5.
CVI 2 Intergovernmental transfer and intergovernmental net borrowing share among the three tiers of government expenditure**.**

YEARS	FEDERAL GOVT	STATE GOVT	LOCAL GOVT
2015	110.4732	766.5354	119.7005
2016	64.04382	984.9248	81.08309
2017	60.76636	970.4404	224.3689
2018	43.49302	929.6866	211.7513
2019	16.46373	986.1448	245.4515
2020	-7.84001	978.4758	236.0512

Source: Authors computation 2021

Table 6
CVI 3: Share of State government expenditure that is not covered by the State government's own revenues:

YEARS	FEDERAL GOVT	STATE GOVT	LOCAL GOVT
2015	3202.107	1843.855	-1395.58
2016	2202.736	564.0352	-1769.56
2017	2471.884	1719.81	-2255.53
2018	3770.687	2498.453	-2738.11
2019	4387.176	2370.495	-3201.39
2020	5454.795	2846.674	-3668.01

Source: Authors Computation 2021

According to Hunter (1974, 1977), greater values of these CVI indicate a larger amount of reliance on federal loans and transfers by state and local governments, which is correlated with a higher degree of vertical fiscal imbalance. Tables 4,5 and 6's results confirm Hunter's theory concerning these statistics. Accordingly, higher and positive CVI values point to a considerable vertical imbalance and the dependence of sub-regional governments on the federal or central government for loans and transfers. However, in order to solve the problems of economic, political, administrative, and religious disparity/imbalance, which are the root and immediate causes of violence in Nigeria, the government must review the revenue sharing formula, taxation base system, intergovernmental transfers, and borrowing. A significant fiscal *imbalance or gap exists in Nigeria between the federal, state, and municipal governments (vertical fiscal imbalance or gap), as well as between rich and poor states (horizontal fiscal imbalance or gap). In order to stop wars and instability in the country, these budgetary imbalances or gaps require rapid government response. The results of this study demonstrated that one of the primary causes of conflict in Nigeria is fiscal imbalance. The government should establish a system of fiscal equalization that strives to achieve balances in economic heterogeneity, political diversity, social services, and other sectors in order to address these concerns. Intergovernmental transfers are the primary strategy used to balance the budget in federal governments. Intergovernmental transfers, which make up a percentage of federal budget, play a crucial role in Nigeria's state and local governments' ability to cover costs.*

CONCLUSION AND RECOMMENDATION

The main contribution of this research is the development of new measurements for the fiscal imbalance in Nigeria. Equalization transfers in Nigeria do or do not exist for purely political reasons, it is a truth. There is no intrinsic economic basis for such transfers to be mandated or to specify their magnitude or composition under the federal form of government. Economically speaking, it is normally ideal for the entire pool of resources to be dispersed in a stable but flexible way from the views of both the grantor (central government) and recipient governments (state and local government). Governments at the federal or central levels need some freedom to manage their budgetary policies and conflicts, but they also need some stability in their transfer policies to act responsibly. Setting the total level of transfers (the variable crucial to fiscal policy) and varying the precise share very periodically, for instance, could address this apparent issue. It's also possible to give the distributive formula a set length of time.

However, equalization transfers should, in theory, be carried out in a plain, predictable, and transparent manner while simultaneously taking into account the needs and capabilities of state and local governments.

Last but not least, it is unnecessary to include specific incentive features to encourage additional tax effort if an equalization transfer is properly designed and, more importantly, if state governments have adequate discretion in tax policy and are fully politically accountable for their policy decisions (unless it is desired to expand the public sector).

The national governments are hesitant to give local governments enough financial leeway. State governments frequently exhibit a similar unwillingness to assume full political accountability for choices. The core idea is that a federal state may, if it so wishes, have an efficient equalization payment system that should enable all regions or states to provide at least a basic level of public services without needlessly penalizing state financial effort. A federation need not have an intergovernmental transfer system to be economically sound, but if it does, good economics offers some suggestions on how to construct it such that efficiency and equity are accomplished in the proper proportions.

The results of this study lead to the following suggestions:

- *The federal or central government should pay attention to know the needs and capacity of internally generate revenue for both state and local government.*

- *An equalization transfer system should be put in place in order to regularly check the imbalances among the central, state, and local governments in the country. This will serve as a guide to lessen imbalances or inequities, which will lead to the settlement of conflicts in the nation's economy, society, and government.*
- *In order for Nigeria's equalization transfer system to be successful, actual fiscal decentralization is required. To do this, entire autonomy must be granted to regional governments, as opposed to concentrating power at the federal level under the pretext of federalism.*

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