



الفيدرالية المالية في نيجيريا المعاصرة: القضايا والآفاق

ببمبو أوجونبانجو، دكتوراه

قسم الحكومة

جامعة ولاية لاغوس

مدرسة الدراسات الأساسية والمتقدمة، لاغوس، نيجيريا

البريد الإلكتروني: mbimboogunbanjo@yahoo.com

معرف ORCID: <https://orcid.org/0000-0002-8112-8764>

الملخص: عنوان البحث: (الفيدرالية المالية في نيجيريا المعاصرة: القضايا والآفاق): تقدم هذه الورقة فهماً للفيدرالية المالية (نظام تخصيص الإيرادات) من وجهات نظر نظرية بهدف فهم طبيعة الفيدرالية المالية في نيجيريا. الهدف هو تحديد مدى تطابق نظام تخصيص الإيرادات في نيجيريا مع النظريات والممارسات الموجودة أو انحرافه عنها. لتحقيق هذا الهدف، تتناول هذه الورقة أيضاً القضايا النظرية المتعلقة بتوزيع الضرائب والنفقات داخل الفيدراليات، فضلاً عن الأسباب وراء التحويلات بين الحكومات. علاوة على ذلك، تفحص هذه الورقة المبادئ الأساسية وتطبيقها في تقاسم الإيرادات في الفيدرالية النيجيرية. في هذا السياق، تركز على السياسة والاقتصاد المرتبط بتقاسم الإيرادات. الحجة الرئيسية في هذه الورقة هي أن الدور البارز للحكومة الفيدرالية في توزيع موارد البلاد، وخاصة الإيرادات الناتجة عن النفط، يساهم في العلاقات الحكومية المتوترة التي أصبحت سمة من سمات النظام. تؤكد هذه الورقة أنه في نيجيريا، كانت العلاقات الفيدرالية-الولائية أكثر عدائية من التعاون. منذ عودة البلاد إلى الحكم المدني في عام 1999، كانت هناك عدة صراعات تشمل الحكومة الفيدرالية والولايات أو الولايات والحكومات المحلية. إن المركزية المفرطة في النظام، الناتجة عن الاعتماد المفرط على النفط، هي المصدر الرئيسي للمشكلة التي تعاني منها نيجيريا. لذلك، تبدأ هذه الورقة بمعنى الفيدرالية المالية.

الكلمات المفتاحية: الفيدرالية، الفيدرالية المالية، المالية الفيدرالية، تخصيص الإيرادات، السيطرة على الموارد، العلاقات بين الحكومات

Fiscal Federalism in Contemporary Nigeria: Issues and Prospects

'Bimbo OGUNBANJO, PhD

Department of Government

Lagos State University

School of Basic and Advanced Studies, Lagos, Nigeria

Email: mbimboogunbanjo@yahoo.com

ORCID ID: <https://orcid.org/0000-0002-8112-8764>

Abstract

This paper provides an understanding of fiscal federalism (revenue allocation system) from theoretical standpoints with a view to understand the character of Nigeria's fiscal federalism. The aim is to establish the extent to which Nigeria's revenue allocation system can be said to conform with or deviate from existing theories and practices. To achieve this aim, this paper also addresses the theoretical issues of tax and expenditure assignments within federations, as well as the rationale for intergovernmental transfers. Moreover, this paper also examines the underlying principles and their application in revenue sharing in the Nigerian federation. In doing so, it focuses on the politics, as well



as the economics around revenue sharing. The key argument in this paper is that the federal government's pre-eminent role in the distribution of the country's resources, particularly the oil-generated revenue, contributes to the acrimonious inter-governmental relations that have become a feature of the system. This paper stresses that, in Nigeria, federal-state relations have been more antagonism than cooperation. Since the country's return to civilian rule in 1999, there have been several conflicts involving either the federal government and the states or the states and the local governments. Over-centralization of the system, which has resulted from over-dependence on oil, is the major source of the problem bedeviling Nigeria. This paper, therefore, starts with the meaning of fiscal federalism.

Keywords: Federalism, Fiscal Federalism, Federal Finance, Revenue Allocation, Resource Control, Inter-Governmental Relations

Introduction

In most federal states, revenue sharing is a difficult process because both the federal and component governments compete for the federation's limited resources. The tradition of sharing revenue generated at the national level in Nigeria predates the federation's inception in 1954. The tradition dates back to 1946, when the unitary Richards Constitution divided the country into three 'compartments.' The revenue allocation mechanism has been marked by some consistency and modification since then. There was an illusion of continuity in the regime between 1946 and 1966, when the military seized the political scene. A robust periphery and a weak federal center characterized the period in the country's political history. However, during the military era, which coincided with the oil boom, this altered. Military rule aided the federation's development from a decentralized to a highly centralized state. Nigeria now has a top-down federal system, in which the federal government chooses which tier of government receives what share of national resources.

The practice of 'federal finance' in classical federal studies or 'fiscal federalism' in contemporary federal studies differs from federation to federation. The common aspect is that it defines how a federation's national wealth is shared. Fiscal federalism is a wide term that refers to two key issues: To begin, which degree of government should collect which tax? Second, how should the taxes collected at the national level be distributed among the various levels of government? Nigeria's fiscal federalism, like that of other federations, is defined by revenue sharing between the three levels of government: federal, state, and local. Similarly, the revenue allocation system is based on three main issues: the problem of allocating revenue to different tiers with their constitutionally assigned functions (vertical revenue sharing); the problem of allocating revenue among states and local governments (horizontal revenue sharing); and the problem of allocating oil-generated revenue between oil-producing and non-oil-producing states. These concerns have dominated the country's budgetary structure, and by extension, federalism's practice. Even though the constitution stipulates the assignment of



responsibilities and the distribution of centrally generated funds, revenue allocation remains a sensitive subject. Vertical revenue sharing is less contentious, maybe because all parties to the sharing agreement recognize that the central government is entitled to the most profitable sources of money. The horizontal sharing, on the other hand, has proven more difficult, partly due to the states' economic disparities, but primarily due to the excessive concentration of resources at the center.

The purpose of this paper is to provide a theoretical understanding of fiscal federalism (revenue allocation system) to better comprehend the character of Nigeria's fiscal federalism. The goal is to determine how closely Nigeria's revenue allocation system adheres to or deviates from existing ideas and practices. The paper also addresses the theoretical concerns of tax and expenditure allocations inside federations, as well as the reason for intergovernmental transfers, to attain this goal. In addition, the paper looks at the fundamental ideas and how they are applied in revenue sharing in Nigeria. It does so by focusing on both the politics and the economics of revenue sharing. The central premise of this paper is that the federal government's dominant position in distributing the country's resources, notably oil-generated revenue, leads to the tense inter-governmental interactions that have become a feature of the system. In Nigeria, the relationship between the federal government and the states has been more antagonistic than cooperative. There have been various confrontations involving the federal government and the states, as well as the states and municipal administrations, since the country's return to civilian control in 1999. The major source of Nigeria's problem is the over-centralization of the system, which has resulted from over-dependence on oil. As a result, the paper begins with a definition of fiscal federalism.

Understanding Fiscal Federalism

The distribution of fiscal resources in a federation is referred to as fiscal federalism. In a federal system of government, it is all about revenue allocation. Fiscal federalism, according to Oates, tackles the public sector's vertical structure as well as the duties of multiple levels of government, including how they interact through instruments like inter-government grants (Oates, 2009: 1120). Similarly, fiscal federalism, according to Freinkman, "defines the essential norms for resource allocation, distribution of service delivery tasks, and procedures for interaction between different tiers of government" (Freinkman, 2008: 153). Fiscal federalism is simply about resource distribution in a federation, and it is essential to the practice of federalism, as we can see from the definitions.

Ensuring that revenue sharing between the federal and state governments corresponds to the division of constitutional functions is an important part of fiscal federalism. To run their fiscal system, some federations create an independent committee or commission. In Nigeria, the National Revenue Mobilization, Allocation, and Fiscal Commission (NRMAFC), which was founded in 1989, evaluates the revenue-sharing formula and advises the presidency on how national income should be shared. On receipt of advice



from the NRMAFC, Section 162(2) of the 1999 Constitution authorizes the President of Nigeria to present a revenue formula to the National Assembly regularly. The NRMAFC, unlike previous fiscal commissions, is a permanent entity. It is also self-contained, at least in theory.

It should not be difficult to believe that fiscal federalism is an offshoot of federalism, which is itself a sub-field of political science, if we accept that fiscal federalism is about intergovernmental budgetary interactions in a federation. Fiscal federalism, on the other hand, is considered within the realm of economics by some economists because it is concerned with public finance. As a result, the debate is whether fiscal federalism is a political or an economic issue. Some academics, primarily economists, stress economic goals as the only elements behind intergovernmental budgetary interactions in federal countries, while downplaying the politics involved (Akinbobola, 2019: 177). The essence of fiscal federalism, according to these scholars, is the allocation of taxing powers and spending, as well as the utilization of intergovernmental transfers to meet the goals of economic efficiency and equality. According to Phillips, constitution-makers should be tasked with sensibly allocating functions, while fiscal specialists should focus on how to allot taxing powers and share the money among the federation's governments (Philips, 2020: 398). Of course, the major incentive for the formation of many federations is economic, but it is important to remember that a federation is a political construct. As a result, examining a federation's fiscal structure without taking into account its politics could be inaccurate.

Fiscal federalism, according to some political scientists, is a political issue. Watts, for example, claimed that intergovernmental budgetary arrangements are "inevitably the outcome of *political concessions*" and are a critical component of a federation's *political* operation (Watts, 2013: 2). Similarly, Aiyede claimed that fiscal federalism is a political issue that is crucial to the success or failure of the federal enterprise because it includes a perpetual conflict for authority allocation between central and component unit actors (Aiyede, 2009: 252). Another group of political scientists believes that revenue allocation is both an economic and a political issue. For example, Oyediran and Olagunju argue that revenue allocation is "strictly an economic issue" with a "strong political component," hence neglecting revenue allocation politics is misleading (Oyediran and Olagunju, 1979: 211).

The preceding discussion demonstrates that in any federal fiscal relationship, the economic and political objectives cannot be separated. If one is to completely comprehend the essence of a federation's fiscal system, economic and political aspects inside the federation must not be overlooked. The federal system's successful operation depends on the dynamic interaction between these variables. Understanding the fiscal system of a federation necessitates an understanding of the political context in which it operates. Fiscal issues, particularly in a multi-ethnic federation like Nigeria, have taken on a political component that goes beyond economics. Fiscal federalism is, in general, a



function of the national political economy, as Burgess noted, underlining the key aspects of a federation (Burgess, 2016: 148). Similarly, retired army General T. Y. Danjuma, a former head of the NRMAFC, once stated that the issue of revenue allocation is "partly economic, but largely a matter of political compromise," as it is "partly economic, but largely a matter of political compromise" (Danjuma, 1996: 89). To put it another way, fiscal federalism should be considered a political economy issue.

Intergovernmental Transfers

This section discusses the reasoning for intergovernmental transfers, however, it is necessary to first analyze the nature of intergovernmental grants in general before delving into the reasons behind them. Revenue sharing is widely favored by federations such as Austria, Germany, and Nigeria, whilst revenue sharing and fiscal transfers are used by federations such as Australia, Belgium, and Spain. Transfers from the federal center are the primary source of budgetary assistance for component units in Canada, Switzerland, and the United States, where the constituent units have large own source revenues (Awa, 1976; Anderson, 2020).

There are two types of intergovernmental grants: general-purpose or unconditional grants and specific-purpose or conditional grants. An unconditional grant is a lump-sum payment that has no expenditure restrictions and can be used by the recipient government, which is usually the constituent government (Boadway and Shah, 2019: 307; Ashwe, 2020: 4). Typically, these transfers are required by law and are intended to supplement the recipient's resources. Unconditional transfer accomplishes two goals: one, it closes the budgetary gap among federating units with limited revenue-raising potential, and two, it achieves some level of equalization among federating units. The use of unconditional grants in ideal federal financial arrangements allows cash to be transferred from wealthier constituent units to less wealthy constituent units, resulting in a sense of equality among constituent units. Central governments in Australia and Canada, for example, give unconditional contributions to component units for equalization purposes, as poorer jurisdictions receive greater funding per capita (Oates, 2021: 78). Similarly, in India, the primary source of funding for the states from the federal government comes through unconditional shares of federal taxes (Anderson, 2020: 60). Unconditional grants are usually determined by the recipient government's fiscal qualities, such as fiscal capability or revenue-raising capacity, fiscal need, or fiscal endeavor.

Conditional grants are one-time payments to constituent units that are intended for a specific purpose. To put it another way, they must be spent according to the wishes of the awarding authority, which is usually the federal government. The type of spending that can be funded with the grant is usually specified in this type of transfer. In some situations, the receiving constituent unit may be forced to match federal financial contributions with a certain percentage of their spending. This is referred to as a matching requirement, and the grant offered is referred to as a cost-shared award. This



provision fosters the examination of grant-funded initiatives as well as local ownership (Boadway and Shah, 2019: 309). The contributory grant is another type of conditional grant that usually covers all of the expenditures of a constituent unit's program that the federal government wants to be implemented (Andrew, 2016: 260). Regardless of the criteria, conditional grants give critical financial support to component units, allowing them to carry out specific programs that are important to the federation's overall economy. Another benefit of conditional payments is that they can be used to establish desired minimum standards for services like education and health (Awa, 1976: 73). Furthermore, as previously stated, because they are targeted at specific goals, it is extremely simple to assess any recipient government's expenditure performance.

One of the most common arguments against conditional grants is that they limit the recipient's independence. Another issue is that because the grant recipient is limited in how it can utilize the money, it may wind up focusing too much on the agreed-upon initiative and neglecting other equally essential programs. These arguments center on the fact that these restrictions amount to encroachment on the recipient government's affairs, perhaps leading to the recipient being submissive to the federal government. These arguments are without merit, particularly in the case of cooperative federalism, or genuine cooperation between the federal and state governments. Interdependence is essential to the proper operation of a federal government in every sector. The American federal system, according to Vile, allows for this type of cooperation initiative without the states becoming submissive to the federal government (1999: 176). Furthermore, the arrangement allows wealthy member governments to reject federal funding if they wish to avoid the risk of subordination.

Grants, whether conditional or unconditional, are critical to federal states' fiscal operations. They have the power to empower or restrain governments in the exercise of their constitutionally assigned responsibilities (Watts, 2013: 43). Federations use both types of grants, depending on the national government's goals and priorities. Conditional grants have proven popular in Austria, Germany, and the United States since budgetary responsibility at the constituent unit level is emphasized in these nations. Nigeria's federal structure prioritizes state maximization, making the use of unconditional grants commonplace. The central government in Nigeria is mandated by law to provide state governments with regular grants. The states receive statutory and non-statutory allocations, respectively. In terms of statutory allocation, Section 162(3) of the Nigerian Constitution of 1999 mandates that the federal government makes annual unconditional grants to the states for them to fulfill their constitutional obligations. Non-statutory grants are typically given to a state amid a crisis, such as a natural disaster, terrorist acts, conflicts, or other issues. Grants are a major source of cash for Nigerian state



governments, however, they are only meant to augment the revenue generated by the states themselves.

Let's look at the reasons in favor of intergovernmental transfers. A federation must be able to function independently. This means that both the central government and the member governments must have enough economic resources to fund their separate activities. Each must be self-sustaining to have some fiscal autonomy. For example, Wheare claimed that if the federal principle is to be implemented in law and practice, both the federal and regional governments must have sufficient financial means to carry out their respective functions (1963: 93). Some constituent entities, particularly in developing federations, may, however, face a fiscal gap in which their spending obligations exceed their ability to produce revenue (Watts, 2009; Maddox, 2020: 223).

A vertical fiscal gap must be addressed by conditional or unconditional grants, or both, regardless of how it occurs. Otherwise, the state's finances may become unbalanced. In federal countries, assisting a distressed state is standard procedure. The central government must address any fiscal imbalance in any region if the national economy is to function at its best and the federation is to avoid instability. A fiscal imbalance in one region could spread to others. However, it is difficult to assess the magnitude of the fiscal gap, particularly in a developing federation like Nigeria, where it has become the standard for every state to have a budget deficit. The most realistic yardstick for evaluating the magnitude of the fiscal gap in an ideal federation would be "fiscal capability," "need," and "effort" (Christiney, 2017: 97). The ability of a government to raise revenue based on its possible revenue sources to support public services is referred to as fiscal capacity or revenue-generating capability. Constituent units with abundant resources typically have higher fiscal capacities. Revenue-equalization grants are grants based on the respective budgetary capabilities of recipient governments (Ashwe, 2017: 196). Fiscal need refers to any special circumstances which may require higher per capita expenditures in one jurisdiction relative to another. For example, a constituent unit with a high proportion of school-age children in its population will incur higher per capita educational expenditures than one with a lower proportion. 'Expenditure-equalization transfers' are grants designed to help recipient governments meet their fiscal needs (Biersteker, 2016: 244). The amount to which the government can exploit its potential tax bases is referred to as fiscal effort.

There appears to be widespread agreement that intergovernmental grants are fiscal adjustment devices intended to achieve specific political and economic goals. According to Adedeji, four main factors usually necessitate a fiscal adjustment in a federation: the problem of resolving the imbalance of resources and needs between the federal and regional governments; the problem of harmonizing income with needs in different



regions; the need to ensure that 'economic equilibrium' is achieved for the federation as a whole; and the need to 'level up' so that the poorer regions are raised and the level of services provided in the different regions is equalized (1989: 220). Intergovernmental grants, according to Oates, can serve several tasks under fiscal federalism, including internalization of spill-over benefits to other jurisdictions, fiscal equalization among jurisdictions, and an enhanced overall tax system (2019: 1126). Watts agrees, noting that the problem of resource distribution in a federation revolves around issues like: vertical financial imbalances between expenditure responsibilities and financial resources; pressures for equalization to correct horizontal imbalances; the need for coordination of taxing powers; the need for regular adjustment of financial arrangements; and the relationship of all of these to the political setting, institutions, and processes of the country concerned (2018: 41).

The goal of intergovernmental grants is usually to establish budgetary equity or equality among the states of a federation. Budgetary equity refers to the fiscal capacity of the federation's constituent entities being equal. In fiscal federalism, there are two types of equity: vertical equity and horizontal equity. The former is concerned with the problem of unequal fiscal treatment, i.e., how to ensure a progressive income tax; the latter is concerned with the treatment of equals, emphasizing that people in similar circumstances in different parts of the country should be treated equally by their respective public sectors (Elazar, 2019: 231). The issue is determining how to define fairness or equality among politically comparable federation units. In Nigeria, this issue is at the center of revenue sharing. Despite the lack of definition, horizontal equity is impossible to achieve in a developing country like Nigeria due to the degree of economic disparities. Thus, the case for the use of unconditional grants aimed at equalizing the ability of all sub-national units in the federation to provide the required public services for their citizens becomes tenable. Because its primary purpose is to remedy a sub-national government's fiscal deficit, these awards are commonly referred to as 'equalization' grants (Olaloku, 1979: 110). It is crucial to note that, although contributing more to the national coffers, richer component units receive the same per-capita subsidy as poorer constituents, implying that equalization has occurred.

Another argument in favor of inter-governmental funding is what is known as an 'inter-jurisdictional spill-over' in the literature. In federations, it is customary for each constituent government to focus on the population within its authority, but services might also assist citizens in neighboring constituent units. An inter-jurisdictional spill-over, according to Ashwe, occurs when "public sector action in one jurisdiction offers advantages to or imposes costs on inhabitants of other jurisdictions" (2016: 341). Spending on public services like hospitals, roadways, and educational institutions, for example, may have spillover consequences. Sub-national governments neglect the costs



of spillover when delivering some services to appease their constituents. As a result, conditional grants are required to cover the spill-over expenditures. These types of grants might be thought of as subsidies aimed at assisting specific sub-national governments in their development efforts. As a result, by implication, these grants can only be used for public activities that result in some spillover costs at the component level.

Understanding Tax Assignment in Nigerian Federation

It is critical to begin this part by describing how fiscal transfers are designed before moving on to tax assignment. Certain aspects must be considered while developing fiscal transfers. The 'administrative efficiency' aspect is the first. This indicates that taxing authority should be delegated to the level of government most likely to administer it efficiently, i.e. with the least amount of tax work and expense. In most cases, the federal government is thought to be more effective in collecting taxes. Taxes with local impact (tax sources that would allow them to provide for the population within their jurisdictions) are also assignable to the federating units because they are closer to the people. Tax sources that do not jeopardize national macroeconomic strategy, are generally easy to administer, and have relatively predictable yields are typically entrusted to state governments (Suberu, 2001: 47).

Another important factor to consider is 'fiscal independence.' This criterion states that each level of government must raise revenue in a way that respects its autonomy (Ekpo, 2016: 214). The 'adequacy and stability' of the resources available to all of the federation's governments must also be considered in a federal fiscal system. This principle implies that the revenue-sharing practice must ensure that 'available resources are elastic enough to meet the expanding needs of the governments', and their sources must also be stable, particularly for the sub-national governments (Philips, 2020: 389). Sub-national governments should have sufficient revenues to fulfill their constitutional obligations. A grant's design must also consider the question of 'equity,' or fairness. According to Boadway and Shah, allotted monies should be proportional to fiscal need factors and inversely proportional to each jurisdiction's tax capacity (2019: 352). Another factor to consider when structuring fiscal transfers is 'predictability.' Sub-national governments should be able to forecast predicted federal transfer income. This enables them to plan for expected revenue as well as design a contingency plan in the event of a shortfall. Furthermore, there should be some aspect of 'responsiveness and flexibility' in the fiscal transfer architecture. 'Unexpected changes in the budgetary condition of the receivers' must be addressed by fiscal systems (Baker, 2016: 112). The system must be adaptable enough to allow sub-national governments to compensate for any deficiency in the central government's revenue base.



It is vital to note that these elements are at odds with one another. The notion of fiscal efficiency, for example, permits the central government to control important taxes like import and export tariffs, making fiscal independence very impossible. Unfortunately, the efficiency criterion has always been favored in Nigeria. One of the main arguments in favor of the federal government collecting the majority of income is that it is larger and more efficient in collecting key taxes. Nigeria has always given the federal government the most profitable revenue streams, while the state governments get the less lucrative ones. This financial arrangement is based on the notion that the activities designated to the federal government require more cash than those delegated to the states. This is a false assumption, especially when it comes to issues like health care and education, which are entrusted to state governments and require a significant budget. Furthermore, the notion of "adequacy and stability" allows the federal government to raise more money than state and local governments, resulting in federal budgetary supremacy.

In a normal federation, how are expenditure obligations distributed? Allocation, distribution, and stabilization are the three basic responsibilities of states, whether federal or unitary. Within the context of these functions, it is typical to examine the attribution of responsibilities in a federal system. The constitutional assignment of responsibilities amongst the tiers of government within the federation is a key feature of a federal system. The supply of public goods for the benefit of all citizens in the country is referred to as the allocation function. According to the literature on fiscal federalism, public goods and services should be provided by local governments when they serve a local population and by the federal government when they benefit the entire country.

As suggested by Oates, sub-national governments should provide goods and services whose consumption is limited to their geographical areas of competence in the interest of efficiency and welfare maximization (2016: 383). The distribution function of a state refers to the operations carried out by a government to achieve income and wealth equality, and most fiscal federalist experts agree that the central government performs this duty better (Coleman, 2020: 116). To achieve the macroeconomic objectives of economic growth and, eventually, a stable economy for the country as a whole, the stabilization function necessitates the deployment of fiscal tools such as money supply and balance of payments. According to Oates, the classical doctrine of fiscal federalism holds that the central government should be in charge of macroeconomic stabilization and income redistribution (2021: 720). The central government, like the distribution function, is the only layer that can be trusted with the stabilizing role. While the central government is responsible for distribution and stability, the allocation function should be shared between the central and subnational governments.



As previously stated, two variables typically impact the distribution of responsibilities across the various levels of government: collective action benefits and economies of scale (Galadima, 2015: 57; Diamond, 2020). As a result, the federal government should be given functions that help the entire nation, while state and local governments should be given functions that benefit the local populace. As a result, the federal government should offer commodities and services such as policing and defense, which benefit all citizens in the country. Furthermore, functions that can be done more efficiently by the federal government should be placed on the exclusive list, while those with more local benefits should be placed on the concurrent list. The federal government is solely responsible for concerns of international affairs and national defense in Nigeria. These functions are beneficial to the entire country, and they can also be done more efficiently by the federal government. They also necessitate a lot of money. Defense, for example, is inextricably related to the country's security, and such a crucial issue should not be entrusted to a constituent government. State governments are in charge of education, health, public utilities, and other services that benefit individuals within their boundaries.

In Nigeria, how are taxes assigned? In most federations, the federal government is in charge of the more lucrative tax jurisdictions, while the states are in charge of the less profitable ones. Federal revenues are for about 90% of total revenues in Mexico, Nigeria, and Russia; between 70 and 85% in Australia and Belgium; 60–65% in Austria and Germany; and around 55% in the United States (Diamond, 2018: 547). Given the immensity of the tasks of the federal government, it is rational for that government to be allotted a bigger amount of national revenues. Sub-national governments, on the other hand, should have their revenue stream to enable them to raise the necessary funds to carry out their governmental duties. Having a self-sustaining revenue stream leads to budgetary independence.

The military forces, police, and residents of the Federal Capital Territory (FCT) pay import and export duties, corporate tax, value-added tax (VAT), excise duties, mining rents and royalties, petroleum profit tax, and personal income tax to the Nigerian government. The states receive a portion of the proceeds from these taxes. The federal government plays a major role in the collecting of corporation taxes in most federations. In Canada and the United States, for example, both levels of government have access to corporate taxes, whereas in Nigeria, only the federal government has access. According to Anderson, the reason for the federal government's centrality in the issue of corporation tax is that 'the administrative complexity of dealing with corporations that operate in many parts of the federation further strengthens the case for centralized, or strongly harmonized, corporate tax design and administration' (Anderson, 2020: 643). The way income taxes are collected varies from one federation to the next. In the United States, for example, the federal government collects the majority of income taxes, whereas in



Switzerland, communes, cantons, and the federal government all collect nearly equally (Anderson, 2020: 649).

Historically, the federal government has had sole authority over customs and excise in Nigeria. As Awa pointed out, the reasons are both political and economic (1989: 67). In most federal systems, the central government collects taxes and then distributes the proceeds to constituent governments according to a formula. This is not the case in Nigeria, where Section 162(1) of the 1999 Constitution mandates that the federal government deposit all centrally collected earnings into a common pool known as the Federation Account, which is then shared vertically and horizontally. It is critical to emphasize that states and local governments preserve their earnings earned within. Fiscal federalism is largely defined by revenue sharing in Austria and Germany, with constituent entities having extremely limited independent own-source revenue (Anderson, 2020: 665). Constituent units manage their tax revenues in Canada, Switzerland, and the United States, with little or no revenue sharing (but some fiscal transfers), while states in Australia share all of the federally imposed VAT, in addition to fiscal transfers (Anderson, 2020: 665).

The states' sources of revenue in Nigeria are less lucrative than those of the federal government. They are also not up to the task of fulfilling their constitutional obligations. As a result, the states have no choice but to rely on the federal government to close the fiscal gap. Liquor sales, birth and death registrations, environmental violations and fines, motor parking fees, and market stall fees are all sources of revenue for local governments. These sources are many yet they are frequently inadequate to match local governments' given functions, hence their need for the federal government. This attitude of fiscal dependence on the center characterizes Nigeria's fiscal federalism.

Revenue Splitting on the Horizontal

Nigeria has developed several guidelines for the horizontal sharing of revenue earned at the national level. The principles of 'derivation,' 'need,' 'equality,' and 'national interest,' on the other hand, are virtually universally implemented. According to Boadway and Shah, the idea of derivation allows revenue to be transferred to states where it was raised in the federation (2019: 294). Similarly, Anderson's approach is about dividing nationally generated revenue in such a way that revenue raised in one jurisdiction stays in that jurisdiction and provides a net benefit to its residents (Anderson, 2020: 779). To put it another way, derivation compels the federal government to return to state governments the total, or a portion, of the taxes or money collected from their inhabitants. The question of revenue sharing in Nigeria has always been how much of the centrally collected revenue should be returned to the source states. Nigeria's fiscal federalism has



exacerbated this situation. The application of this idea has sparked the most debate, as we will see.

The 'need' premise is based on a sub-national government's budgetary necessity, which is normally measured by the population of the unit. This theory permits revenue allocation based on the needs of the people in each constituent unit, regardless of their contribution to overall national revenues. The key issue with this approach is determining how to assess a sub-national unit's needs. In a multi-ethnic federation like Nigeria, using population as a measure of need has the potential to lead to census misuse.

The 'equality of states' notion is another common principle in Nigeria. This idea is founded on the assumption that, regardless of population or land mass, all federating units within a federation are equal. As a result, regardless of their contribution to the national revenue pot, each federating unit must be treated equally and receive equal percentages of centrally generated revenues (Elaiwu, 2017: 206). Following the adoption of this principle, ethno-regional groups have called for the construction of new states in the country, presumably due to the revenue allocation system's predicted benefits.

The principle of 'national interest' is the last. This enables each sub-national unit to receive an annual inter-governmental grant based on its population, for specific purposes which must be in the interest of the country as a whole (Amuwo, et.al, 1998; Adebola, 1998). This idea, as Elaiwu points out, emphasizes the necessity to elevate the living standards of citizens in poorer states above the country's leaders' minimal national standard (2017: 321). The principle also underlines the importance of providing enough resources to federating units for the entire federation to attain a balanced development.

The derivation concept first appeared in Nigeria's fiscal structure in 1946, when Sir Sydney Phillipson was appointed as the sole Fiscal Commissioner to decide how income should be distributed to regional governments. Despite being a unitary constitution, the 1946 Constitution intended to give the then three Regions some financial responsibility by requiring each to have its budget to cover the costs of services supplied in the region (Danjuma, 2009: 167). As a result, funding had to be supplied to each Region for them to carry out their constitutional responsibilities. The Phillipson Commission divided revenues into regional (declared) and non-regional revenues to attain these goals (non-declared). Direct taxes, licensing fees, mining rents, and rentals on government properties were examples of regional revenues that could be identified within the Region and collected locally by regional authorities (Danjuma, 2009: 177). These funds were referred to as the 'independent revenues' of the Region. Non-regional income was solely generated by the central government, and included export, import, and excise levies.



The Commission also recognized two fundamental principles for allocating non-declared revenues: the derivation principle and the even progress concept. The former was intended to instill in the Regions a feeling of fiscal responsibility to improve their fiscal strength. The notion of equal progress was intended to compensate Regions for the losses incurred as a result of derivation, with poorer regions receiving more than their due share of central resources. The Commission arrived at the following allocation formula in its recommendation: Northern Region: 46%, Western Region: 30%, and Eastern Region: 24% (Danjuma, 2009: 179).

The Regions were displeased with Phillipson's financial arrangement. One major criticism of the program was that it was difficult to determine what was derived from each Region due to a lack of solid statistical data, particularly concerning the three principal components of non-declared revenues: import and export duties, corporation tax, and excise duties (Davis, 2018; Dikshit, 2020). There was also a notion that the Northern Region received significantly less central revenue than it supplied, whilst the Eastern Region received significantly more and the Western Region received slightly less (May, 2016: 266). Northern political leaders contended that the Eastern Region was being developed at the expense of the Northern Region. They went even further, saying that allocations should be decided on a per capita basis, with a Region's population determining its portion of central money. They claimed that the plan had given the two southern Regions, which had smaller populations, an unjust proportion of national money, adding to the Northern Region's socioeconomic development backwardness (Awa, 1964: 112). Because of the North's numerical strength, any budgetary structure based on population was bound to benefit the North. Because derivation was based on the ability of people in the Regions to pay taxes, which was based on the wealth of the Regions, it follows that the concept would favor the Western Region, which was the most developed—thanks to the cocoa boom (Adedeji, 2015: 332). It is worth noting that the period saw a surge in the sale of cocoa grown primarily in the Western Region. Despite this impression, the North and, to a lesser extent, the West were 'surplus' regions, while the East remained a 'deficit' (Adedeji, 2015: 334).

Ironically, the same Constitution that was supposed to promote national unity created the seeds of future regional conflict. The political fighting over the Phillipson formula embroiled the colonial authority (Adedeji, 2015: 339). Northern leaders appeared to have forgotten that one portion of the country's well-being was dependent on the well-being of others, and that Nigeria was formed on this foundation in the first place. Before this period, southern Nigeria was richer than northern Nigeria because customs duties on trade with both North and South were collected in southern ports. Despite the



inadequacies of Richards' unitary Constitution, it marked the beginning of fiscal federalism in Nigeria.

Despite the differences among regional elites upon which Region should get what share of the national revenue, delegates during the London Constitutional Conference of 1953, which midwife the Federal Constitution of 1954, were unanimous in their demands for greater regional autonomy in the mold of federalism. As a result of this plan, fiscal adjustment became a requirement. Consequently, Sir Louis Chick was appointed Fiscal Commissioner, tasked with investigating and reporting on the financial aspects of the constitutional proposals.

The Fiscal Commissioner began his task by stating that Nigeria's economic development was dependent on the federal government's fiscal resources, and that if the federal government was to have the resources it needed to carry out its constitutional responsibilities, its 'reasonable needs' must be interpreted liberally, and its 'present reserves must not be distributed lavishly to the Regions' (Elazar, 2019: 328). Only revenue gathered by the federal government more than its own needs, according to Chick, would be transferred to the Regions. This suggested that the federal government was in charge of costly infrastructure projects including railways, ports, telecommunications, and major roadways. It also meant that if a regional government ran into financial difficulties, the federal government would step in to help (Adamu, 2018: 49; Ade, 2020: 244). The Chick Commission's recommendations favored the derivation principle in that: (i) the central government should continue to levy personal income tax, mining royalties, and certain rents and fees for licenses, but return the proceeds to the regions on a derivation basis; and (ii) the central government should continue to levy personal income tax, mining royalties, and certain rents and fees for licenses, but return the proceeds to the regions on a derivation basis.

As a result of these proposals, the federal center was exempt from export duties, allowing the Western Region and, to a lesser extent, the Northern Region to make significant revenue from the sale of their commodity items. Meanwhile, the Eastern Region's budget continues to be tough to balance. The Commission agreed on the following formula for horizontal allocation: Northern Cameroon: 30%, Western Cameroon: 40%, Eastern Cameroon: 29%, and Southern Cameroon: 1% (Adamu, 2018: 67). Without question, the focus on derivation exacerbated the already significant economic disparities between the Regions. Political leaders from the North and East, as usual, expressed their displeasure with the system, citing its over-reliance on the derivation principle and continuing to demand greater money for their respective Regions. Eastern Region officials contended that the fall in earnings from palm products, which was once the Region's principal source of revenue, was the cause of the East's status as a 'beggar' Region, and that it was



unjust for the other Regions to overlook this fact (Adamu, 2018: 177). It should be mentioned that palm produce yields have decreased as a result of international market competition. During this time, the Nigerian economy was largely reliant on the export of primary products, the prices of which were subject to global market fluctuations. The regional demand for increased funding is logical, given that the expansion of regional social services prompted by the introduction of a federal system in 1954 put a strain on regional budgets.

It was decided that a fiscal commission be appointed and mandated to recommend a revenue allocation formula that would give the Regions the maximum possible measure of independent revenue at the London Constitutional Conference of 1957, where Nigerian delegates discussed Nigeria's independence in 1960 (Raisman and Tress, 1958). The new Commission, led by Sir Jeremy Raisman and Professor Ronald Tress, condemned the existing system for putting too much emphasis on derivation, which it claimed was based on faulty calculations, as did the previous one (Auty and Gelb, 2020: 453). Despite its criticism of derivation, the Commission recommended that 50% of mining rents and royalties be allocated to the Region where they were derived, 20% to the federal government, and 30% to the newly established Distributable Pool Account (DPA), which would be shared by other Regions (Auty and Gelb, 2020: 466). It should be remembered that, under the previous Chick model, all mining rents and royalties flowed to the derivation Regions. The Commission went on to propose that the DPA's contents be split as follows: 40% for the Northern Region, 24% for the Western Region, 31% for the Eastern Region, and 5% for the Southern Cameroons (Auty and Gelb, 2020: 466).

In 1959, the Raisman fiscal arrangement went into effect, and it was included in the 1960 Independence Constitution. Despite the celebrations around independence, elites from the North and West did not hide their dissatisfaction with the Raisman budgetary structure. The two Regions' financial strength had diminished by this time due to a decline in the market for their export commodities. Their income was insufficient to cover the expenditures of delivering the social services that their population demanded. As a result, it was unsurprising when they demanded a review of the scheme. The federal government, on the other hand, was seeing an increase in revenue as a result of increased oil sales proceeds. In 1956, commercial quantities of crude oil were discovered in Nigeria. Similarly, due to its newly acquired oil wealth, the Eastern Region's economic fortunes had improved. The central government was designated as the 'surplus' tier, and it was necessary to make further non-statutory transfers to the Regions, which had grown financially insecure.



Despite its economic gains as a result of the Raisman formula, the Eastern Region criticized it as "very irrational, unfair, and inequitable" (The Binns Commission Report, 1964). This indicated that the Eastern Region was dissatisfied with the 50% allocation from federally collected mining rents and royalties that it was receiving. Mining rents and royalties should be returned in full, according to leaders from the region. It is worth remembering that the Eastern Region formerly favored revenue allocation based on 'national interest.' The officials of the Eastern Region were well aware that having complete access to oil revenue would bring tremendous economic benefits to their region. If granted, the demand for full repayment would weaken the federal government's financial position.

Regional opposition made a reassessment of the Raisman scheme nearly inevitable, but it did not happen until after the Republican Constitution was enacted in 1963. The plan needed to be reviewed for the following reasons: One, the Southern Cameroons left Nigeria in 1961, and its share of the DPA was divided among the existing Regions; two, in 1963, the Mid-Western Region was formed from the then Western Region, resulting in Nigeria becoming a federation of four Regions, and the latter's share of the DPA was divided between the newly created unit and the new Western Region. In 1964, the Binns Commission was created to review the Raisman formula under Section 164 of the Republican Constitution of 1963. Political leaders from the Northern Region stated in their submissions to the new Commission that their region had been significantly less able to repair the gap in services and investment expenditure than the Eastern Region, which had reaped more cash as a result of oil drilling in that region (Birch and Shah, 2015: 65). The Western Region, which is now facing declining economic fortunes, has denounced the current fiscal structure as a "check" on its economic growth rate (Birch and Shah, 2015: 68). Furthermore, the Region repudiated the derivation principle in all of its manifestations, which it had embraced in the 1950s while it was profiting handsomely from the sale of cocoa.

The Binns Commission recommended that the principle of derivation be placed on hold, stating that strict adherence to the idea would undermine the country as a whole. The Commission suggested that 35 percent of federally collected revenue from import tariffs, mining rents, and royalties be placed in the DPA and allocated as follows: 42% to the North, 30% to the East, 20% to the West, and 8% to the Mid-West. According to the Commission, the West's share was increased to compensate it for revenue lost as a result of the creation of the Mid-Western Region (in 1963), while the Mid-portion West's was increased to provide the newly formed Region with sufficient finances to pay its high administrative costs. Overall, the Northern Region profited the most from these recommendations, while the Eastern Region benefited the least and the Western and Mid-Western Regions relatively marginally (Dent, 2016: 141-142).



Despite this, the 1964 fiscal arrangement, which guaranteed 50% derivation, failed to provide any relief for political stability in the country, and regional leaders continued to insist on the concept that benefited them the best. Each Region desired to get the most out of the resources that were under its jurisdiction. In 1964, Eastern Region leaders accused the Northern Region of abusing its numerical strength in the central government to amass a large amount of centrally collected income. The crisis had escalated to the point where the Eastern Region had threatened to secede (Dicks, 2017: 271).

The distribution of natural resource profits varies in each federation. Nigeria, Russia, and Venezuela are all oil-rich countries, but their oil-sharing formulas are different. For example, in Russia, where the federal government has established two petroleum-revenue pools for stabilization and long-term savings, the governments of most producing districts receive a 5% share of oil earnings but none of the gas revenues (Anderson, 2020: 223). Oil-producing states in Nigeria currently receive 13% of centrally collected oil income in addition to whatever revenues they receive from the Federation Account. This is enshrined in the United States Constitution.

During the military era, the practice of sharing oil-generated wealth began. The Nigerian military invaded the country's political stage in January 1966, but the country's fiscal structure was not tinkered with until the civil war (1967–1970). Chief I. O. Dina was named chair of the 'Interim Revenue Allocation Review Committee' by the Gowon military government (1966–1975) in 1969 (Anderson, 2020: 289). The Dina Committee recommended a set of guidelines for distributing the country's centrally generated money, which is primarily derived from crude oil sales. The principle of derivation was mentioned once more. Rents and royalties on on-shore oil should be allocated 15% to the federal government, 10% to states based on derivation, 70% to the Special Joint Account (SJA), and 5% to the Special Grants Account (SGA), according to the committee. Off-shore oil revenue was to be split 60% between the federal government, 30% between SJA, and 10% between SGA (Elaigwu and Akindele, 2007: 224). The upshot of this arrangement is that whatever the states got from centrally collected money, oil-producing states would receive an additional 10% share. While a result, as the oil-producing states benefitted from the partial adoption of the derivation principle, the discrepancy between the states widened.

The Dina formula favored both the central government and the oil-producing states. While the two oil-producing states of Midwest and Rivers received 40.83% of the centrally generated money, the ten other states, which collectively accounted for 92.7% (51.6 million) of the country's total population, split 59.17%. Because of increased oil earnings, central revenue grew as well. The Dina Report sparked intense controversy



among state military regimes, as one might expect. For example, the Western state, which had previously favored derivation, has suddenly turned against it.

Despite a constitutional law establishing the idea of derivation in 1999, Olusegun Obasanjo's newly established civilian government refused to disburse the 13% derivation fund due to oil-producing states from May to December 1999. The point of disagreement was whether or not offshore oil was included in the derivation rule. The Federal Government thought that offshore oil belonged to the entire country, whilst oil-producing states maintained that offshore oil should be assigned to neighboring states and subjected to the derivation rule (Suberu, 2008: 462). The Federal Government's interpretation of the derivation rule was heavily criticized. Section 162(2) of the 1999 Constitution was also criticized for allowing for complex interpretations of the principle's application. The clause, for example, fails to describe the location of natural resources or identify the derivation rule's beneficiary. For example, Ben Nwabueze, a noted Nigerian lawyer and law professor, stated that distinguishing between onshore and offshore oil for the sake of applying the principle of derivation was nonsensical and intended at denying oil-producing states of their dues (2007).

To break the deadlock over the onshore/offshore divide, the Federal Government had to petition the country's highest court to declare that the derivation principle does not apply to offshore oil, as well as to seek, among other things, the determination of the oil-producing states' seaward boundary. The Supreme Court maintained the Federal Government's exclusive right to revenue from offshore oil in a landmark decision in April 2002. This indicates that offshore oil money was not subject to the derivation rule. The ruling was interpreted as an intentional maneuver by the federal government to deprive oil-producing states of their entitlement and preserve federal fiscal hegemony, as predicted by the elite in the oil-producing areas. However, in the spirit of peace and reconciliation, and maybe with the April 2003 general elections in mind, President Obasanjo ignored the court's decision and enacted the Allocation of Revenue (Abolition of Dichotomy in the Application of the Principle of Derivation) Act of 2004. In the application of the principle of derivation for revenue allocation, the Act effectively eliminates the distinction between resources derived onshore and those generated offshore. As a result of the Act, the Supreme Court's decision was overturned, and derivation was expanded to include both onshore and offshore oil production. The Act's passing was celebrated by Niger Delta elites and allies, who saw it as a watershed moment in Nigeria's revenue-sharing practice. The non-oil producing states, on the other hand, were dissatisfied with the political solution. They claimed that the Act had illegally transferred portions of the country's territorial waters to oil-producing states, leaving non-oil-producing states financially disadvantaged (Suberu, 2008: 464). They took the Act to the Supreme Court, but were unsuccessful. The derivation principle has resulted in



more oil-generated earnings for oil-producing states, allowing them to become wealthier than their non-oil-producing counterparts.

Over-Centralization and Intergovernmental Relations in Nigerian Federal System

During the military era, the country's federal structure began its road toward excessive centralization. It began on the eve of the civil war (1967–1970), but took hold when oil became the country's economic backbone. As a result of the conflict, a variety of political and economic reforms were enacted, with the federal government taking a key role, particularly in economic concerns. Throughout the war years, the states were subordinated to the center. The reason for this is simply for effective control of the various divisions of the military. As a result of this measure, the federal government now dominates the states. The federal government took over revenue streams that had previously been under the control of the states, resulting in a decrease in state revenues. This was to be expected, given the management of the war, economy necessitates some level of centralization. Wheare stated towards the end of WWII that war situations usually result in an expansion in the powers of central governments in a federal system, and that as a result, wars and economic crises are the federal government's enemies (1963: 12).

The centralizing trend was aided by the economy of the civil war period, which demanded central supervision. However, the military's centralized command nature continued to have an impact on the country's practice of federalism after the war. For example, a year after the war, an off-shore oil income order was issued, giving the federal government sole rights to off-shore rents and royalties, bolstering the federal government's financial position relative to the states (Suberu, 2001: 51). State governments had to rely on grants from the federal government because a major amount of federally collected revenues went to the federal government.

The 1973 oil boom, which corresponded with a period of military dictatorship, boosted the federal government's economic centrality, which increased the states' reliance on the federal government. In comparison to the states, the federal government enjoys considerable money, particularly from oil sales, thus the center became the sole distributor of oil rents, determining which state gets what percentage of the national oil wealth. As a result, the center became a battleground for access to and control of oil resources. As a result, rather than being an autonomous layer of government, states became extensions of the federal government. As a result, it is easy to see how the military consolidated Nigeria into an overly centralized federation.

The Federation Account's revenues are to be dispersed vertically in the proportions of 48.50%, 24%, 20%, and 7.50% to the federal, state, municipal, and centrally managed special funds, according to the 1999 Constitution. Federal dominance in budgetary



concerns is assured through a sharing system that gives the federal government the lion's share of the Federation Account. The exclusive List, which contains 68 items, and the concurrent List, which contains 12 items, are the two basic legislative lists established by the Constitution (Nigerian Constitution, 1999: 130-138). The former includes only federal government obligations such as currency, defense, and foreign policy, while the latter includes both federal and state government functions such as education and health care. Residual functions are assigned to state governments if they are not stated in these lists. Federalism argues that the federal government and state governments are coordinated and independent, but that "whoever has the residue, neither general nor regional authority is subordinate to the other", as Wheare stated (1963: 12). It is simple to identify which tier is subservient to the other with a constitutional framework like this, and with the constitutional clause that federal law triumphs in the event of a conflict on the concurrent list.

As a result of the federalization of national revenue, Nigeria's 36 states, the Federal Capital Territory, Abuja, and its 774 local government areas have become significantly reliant on the federal government. States in Nigeria, as creations of the central government, are extremely reliant on their creator, who is becoming increasingly overloaded. This reliance severely limits the states' capacity to realize their full potential. Furthermore, this has had an impact on federal-state ties on the one hand, and state-local government relations on the other. Of course, shared rule is a precondition of federalism, but with topics like basic education, health care, and local government on the table, disagreement is unavoidable.

Furthermore, the constitutional clause allowing the federal government to intervene in state issues undoubtedly undermines a state's sovereignty. The federal government of Nigeria has the authority to declare a state of emergency in any state if law and order have been severely disrupted. When this happens, the state governor is removed from office and replaced by a federal appointee as administrator. The first time this happened was in 1962, when the Western Region was declared a state of emergency by Prime Minister Sir Tafawa Balewa. The turmoil that enveloped the Region's ruling party compelled this measure (the Action Group, AG). Following the announcement, the governor, Chief Samuel L. Akintola, and the whole AG-led government were suspended, and the Region was placed under an interim government led by Chief M. A. Majekodunmi. The state of emergency was declared for six months. President Olusegun Obasanjo, for example, used this power when he declared a state of emergency in Plateau state in 2004 as a result of the state's ongoing religious conflict. Similarly, the Jonathan-led federal government declared a state of emergency in three of Nigeria's north-eastern states, Adamawa, Borno, and Yobe, where Boko Haram's terror reigned supreme.



One area of federal-state tension is that of the maintenance of law and order at the state level. The incapacity of state governors to maintain security in their states is well-known, especially in the Fourth Republic. As previously stated, policing belongs under the exclusive list, yet the governor is recognized as the state's chief security officer. Ironically, the president, not the governor, is in charge of the police force. Nigerians have been fed stories of state commissioners of police defying governors' orders because they are solely accountable to the Inspector-General of Police, who is then accountable to the president.

Without mentioning the tense relationship between the federal government and Lagos state under Olusegun Obasanjo and Bola Tinubu, no discussion of federal-state relations in the Fourth Republic would be complete. The Governor's introduction of new local government councils in 2004 brought the state into conflict with the federal government. President Obasanjo contended that the conduct was a violation of the country's constitution, and he went on to deprive Lagos state of its Federation Account allocation. The country's Senate sided with the president, stating that the decision violated Section 8(3) of the Constitution, which mandates a referendum on the creation of new local governments (Warisu, 2016: 195). Lagos state had to take the federal government to court. Surprisingly, the Supreme Court ruled in Lagos' favor, ordering the federal government to release the cash in question. The Supreme Court decided that the federal government had wrongfully withheld funding from Lagos state, but the President ignored the order. Until the end of Obasanjo's presidency in 2007, Lagos state was denied its dues. Obasanjo's refusal to respect the constitutional clause on the derivation principle in 2002 has also been mentioned, and this does not need to be repeated here.

Similarly, incidents of inappropriate meddling in local government affairs by state governors characterize the state-local government relationship. Local government councils are meant to be self-governing, but they are subordinate to the state governments that founded them. They are legally permitted to provide services that assist the grassroots population, such as elementary and secondary education, waste disposal, and birth and death registration. However, these locally generated revenue streams are frequently insufficient to meet their constitutional obligations, necessitating reliance on the Federation Account, which is administered by state governments. A refractory chairman is frequently 'punished' by withholding statutory allocations meant for that local government, as if it were a norm. These factors contribute to local governments' lack of autonomy.

President Muhammadu Buhari, on the other hand, saw some type of cooperation between the federal and state governments in 2015, when he granted bailout monies to around 30



of the 36 state governments to help them close their fiscal gaps. The financial crisis in some states was so severe that they were unable to pay civil officials' salaries.

It is critical to returning to our definition of federalism as a system in which governmental functions are distributed in a coordinated and independent manner between the federal and regional administrations. This means that each tier in the federation has its duty to play, however, states in Nigeria are at a disadvantage due to their subservient status. This has largely fueled calls for structural reform and true federalism.

Concluding Remarks

The most problematic part of Nigeria's federal structure is revenue allocation. As we have seen, fiscal schemes of 1946 and 1951 permitted source federating units to receive 50% of revenue generated by their territories, but the 1953 scheme allowed for 100%. It would be recalled that the governments of the Northern and Western Regions favored the idea of derivation when groundnuts and cocoa were the principal sources of revenue for these two Regions respectively. They only objected to this method of sharing when oil was discovered in the Eastern Region.

No one fiscal strategy spared condemnation from regional political leaders, as illustrated in the paper. When a new scheme was implemented, certain federating units benefitted while others suffered losses. Finding an appropriate formula for both horizontal and vertical sharing agreements has been extremely tough for leaders. Each federating unit aims to get the most out of the system. There is no denying that regional wealth inequality has contributed to differing needs, and has particularly been responsible for the inter-regional conflicts dominating the country's revenue-sharing practice. The way taxes are assigned in federations makes component units unlikely to be able to raise enough cash from non-federal sources to cover their expenses. As we have seen, the center controls the more profitable revenue streams, while the federating units are left with the less profitable ones. This fiscal framework exacerbates the economic disparities between states. Politics, more than economics, has a significant impact on the revenue distribution system.

Nigeria's political leaders have made substantial efforts at every stage of the country's political history to ensure efficient and equitable revenue distribution among the various levels of government. However, as noble as the goals of the established fiscal principles are, they have proven unworkable. The fact that these ideals are in contradiction with one another is an issue. As a result, relying entirely on one of them causes problems, and using all of them at the same time does not fix the problem. The principle of derivation, for example, contradicts the principle of need. As the rich get richer and the poor get poorer, the concept exacerbates regional disparity. However, one of the key benefits of derivation is that it encourages healthy rivalry among governments, as those with fewer natural resources discover new ways to earn wealth from within. The almost absolute concentration of resources at the center is the basic problem with income sharing in



Nigeria. As a result, the system has become too politicized, resulting in resentment and ongoing arguments among the parties involved.

References

- Adamu, L. *The Nigerian Federation at the Crossroads* (Cambridge University Press, 2018).
- Ade, S. *Civil Society Organizations and Federalism* (Abuja: Hopebay Press, 2020).
- Adebola, M. *Comparative Federalism: Theory and Practice* (London and New York: Routledge Publishing Company, 1998).
- Adedeji, A. *Nigerian Federal Finance: Its Development, Problems and Prospects*. (London: Hutchinson Press, 1989).
- Adedeji, T. *Why Federations Fail* (New York: New York University Press, 2015).
- Aiyede, R. “The Political Economy of Fiscal Federalism and the Dilemma of Constructing a Developmental State in Nigeria”, *International Political Science Review*, 30(3), October, 2009: 252.
- Akinbobola, F. *The Political Economy of Fiscal Federalism* (Oxford: Oxford University Press, 2019).
- Amuwo, et al. (eds.), *Federalism and Political Restructuring in Nigeria* (Ibadan: Spectrum, 1998).
- Anderson, A. *Fiscal Federalism: A Comparative Introduction* (Oxford: Oxford University Press, 2020).
- Anderson, U. *Federalism: Failure and Success—A Comparative Study* (Oxford: Oxford University Press, 2020).
- Andrew, A. *Federalism and Globalization: An Introduction* (Oxford: Oxford University Press, 2016).
- *Comparative Federalism* (London: Routledge Publishing Company, 2017).
- Auty, R., & Gelb, A. “Political Economy of Resource-Abundant States”, in R. M. Auty (ed.), *Resource Abundance and Economic Development* (Oxford: Oxford University Press, 2020).
- Awa, L. *Federalism in Nigeria: Facing the Challenges of the Future* (London: Adonis & Abbey Publishers, 1989).
- Awa, E. *Issues in Federalism* (Benin City: Ethiope Publishing Corporation, 1976).
- *Federal Government in Nigeria* (Berkeley and Los Angeles: University of California Press, 1964).
- Baker, P. *The Economics of Nigerian Federalism* (Washington, DC: Battelle Memorial Institute, 2016).
- Biersteker, T. *Multinationals, the State, and Control of the Nigerian Economy* (Surrey: Princeton University Press, 2016).
- Birch, R., & Shah, A. *Fiscal Federalism: Principles and Practice* (Cambridge: Cambridge University Press, 2015).



- Broadway, R., & Shah, A. *Fiscal Federalism: Principles and Practice of Multi-Order Governance* (Cambridge: Cambridge University Press, 2019).
- Burgess, M. *Comparative Federalism: Theory and Practice* (London and New York: Routledge, 2016).
- Christiney, V. *The Structure of Federalism* (Oxford: Oxford University Press, 2017).
- Coleman, A. J. *Nigeria: In Search of the Federal Spirit* (Los Angeles: University of California Press, 2020).
- Danjuma, T. Y. *The Political Economy of Nigerian Federalism* (Lagos: Viking Publications, 2009).
- *Revenue Sharing and the Political Economy of Nigerian Federalism* (Hope Press, 1996).
- David, A. *Federalism: Comparative Perspectives* (Montreal: McGill-Queen's University Press, 2018).
- Davis, R. *The Federal Principle: A Journey Through Time in Quest of Meaning* (Berkeley, Los Angeles, and London: University of California Press, 2018).
- Dent, M. *Nigeria: Federalism and Ethnic Rivalry* (Los Angeles: University of California Press, 2016).
- Diamond, L. *Class, Ethnicity and Democracy in Nigeria* (London: Routledge Publishing Company, 2020).
- Dicks, U. *Federalism: Failure and Success—A Comparative Study* (London: Routledge Publishing Company, 2017).
- Dikshit, R. *The Political Geography of Federalism in Developing Countries: An Enquiry into Origins and Stability* (New Delhi: Vishan Publishing Company, 2020).
- Ekpo, A. "The Federal Republic of Nigeria", in A. Shah (Ed.), *The Practice of Fiscal Federalism: Comparative Perspectives* (Montreal: McGill-Queen's University Press, 2016).
- Elaigwu, J. *Understanding Federalism in Nigeria* (Lagos: Hopeland Publishers, 2017).
- Elaigwu, J. and Akindele, R. (eds.), *Federalism and Nation Building in Nigeria: The Challenges of the 21st Century* (Abuja: Oak City Publishers, 2007).
- Elazar, D. *Exploring Federalism* (Alabama: The University of Alabama Press, 2019).
- Freinkman, L. "Intergovernmental Relations in Nigeria: Improving Service Delivery in Core Sectors", in J. Elaigwu (ed.), *Fiscal Federalism in Nigeria: Facing the Challenges of the Future* (London: Adonis & Abbey Publishers, 2008).
- Galadima, H. *Division of Powers and Responsibilities in Nigeria* (London: Adonis & Abbey Publishers, 2015).
- Maddox, B.O. *The Political Basis of Federation* (Manchester: Manchester University Press, 2020).
- May, J. *Federalism and Fiscal Adjustment* (Cambridge: Cambridge University Press, 2016).



- Nwabueze, B. *How President Obasanjo Subverted Nigeria's Federal System* (Abuja, and Owerri: Gold Press Limited, 2007).
- Oates, B.M. *New Theoretical and Empirical Perspectives in Comparative Federalism* (Oxford: Oxford University Press, 2021).
- Oates, W. *Fiscal Federalism* (New York: Vikah Publications, 2021).
- *Federalism in Nigeria: Problems and Prospects* (New York: Brace Publications, 2016).
- "An Essay on Fiscal Federalism", *Journal of Economic Literature*, XXXVII (9), December 2019: 1126.
- *Federalism in Nigeria* (Washington, DC: United States Institute of Peace Press, 2009).
- Olaloku, A. F. "Nigerian Federal Finance: Issues and Choices", in A. B. Akinyemi, et al. (eds.), *Readings on Federalism* (Lagos, Nigeria: The Nigerian Institute of International Affairs, 1979).
- Oyediran, O., & Olagunju, O. "The Military and the Politics of Revenue Allocation", in O. Oyediran (ed.), *Nigerian Government and Politics Under Military Rule 1966–79* (London and Basingstoke: Macmillan, 1979).
- Phillips, A. *Nigeria's Federal Fiscal Experience* (Cambridge University Press, 2020).
- Raisman, J. and Tress, R.C. Fiscal Commission (1958), hereafter referred to as *The Raisman Report*, 1958.
- Suberu, R. *Federalism and Ethnic Conflict in Nigeria*. Washington, DC: United States Institute of Peace Press, 2001).
- Suberu, R. "The Supreme Court and Federalism in Nigeria", *Journal of Modern African Studies*, 46(3), July 2008.
- The Constitution of the Federal Republic of Nigeria 1999.
- Vile, M. J. C. *The Structure of American Federalism* (Oxford: Oxford University Press, 1999).
- Warisu, A. "Federal-State Relations in Nigerian Federalism", in O. Ibeanu & M. J. Kuna (eds.), *Nigerian Federalism: Continuing Quest for Stability and Nation-Building* (Ibadan: Safari Books, 2016).
- Watts, R. *New Federations: Experiments in the Commonwealth*. Oxford: Oxford University Press, 2018).
- "Introduction: Comparative Research and Fiscal Federalism", *Regional and Federal Studies*, 23(4), March, 2013: 2.
- *Comparing Federal Systems* (Montreal and Kingston: McGill-Queen's University Press, 2009).
- Wheare, K. *Federal Government* (London: Oxford University Press, 1963).