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Federal-State Fiscal Relations Under a Democratic Governance: critical analysis of Nigeria's experience

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Abstract

Fiscal federalism can be defined as the distribution of financial resources and responsibilities between different levels of government, such as the Federal Government, States, and Local Governments. This research explores the relationship between federal and state fiscal relations under democratic governance in Nigeria. This paper aims to examine the fiscal relations between the Federal and state governments under democratic governance. The methodology adopted for this research is a literature search based on qualitative data. These data were obtained from policy documents, journals, newspapers, textbooks, etc. The data was subsequently analyzed using content analysis. The findings revealed that despite the various constitutional provisions, the principle of fiscal relations is faced with the challenges of unequal distribution of national resources between the federal and its federating units, inadequate revenue generation, and fiscal functions of the various tiers of government. The paper concluded that fiscal relations are highly lopsided as they favour the federal government against the federating units and have less impact on the people. The paper recommended that there is a need to ensure that there should be an equitable distribution of revenue and fiscal responsibilities among the federating units, and each state government should be encouraged to improve its internal revenue generation.

Keywords: Nigeria federalism, Intergovernmental relations, Decentralization, Fiscal relations, Revenue sharing

INTRODUCTION

Federalism connotes a method of power-sharing in a political system. Thus, Wheare (1953), a foremost classical writer on this concept, and other writers (Elaigwu, 1993; Elaigwu *et al*., 1994; 2019) have defined a federal state as one in which the Central (National) and state (federating) governments are coordinated, namely, that neither tier of government (Central-state/Regional) is subordinate to the other in legal authority (Jinadu, 2003). In other words, Federalism is the method of dividing powers so that the central and regional governments are each, within a sphere, co-ordinate and independent. Fiscal Federalism deals with the allocation of government spending and resources to the various tiers of government, so that each one can perform its constitutional responsibilities. Allocating funds and resources across different tiers of government is a central tenet of fiscal federalism. Intergovernmental fiscal arrangements, such as fiscal federalism, outline the roles and duties of different tiers of government and the associated budgetary allocations necessary to accomplish policy goals (Pilla, 2023). Fiscal federalism has generated so many challenges capable of threatening the corporate existence and continuity of the Nigerian entity. Godwin and Oni (2021) argued that Fiscal federalism, just like other federations, is principally characterized by the sharing of fiscal resources amongst the different tiers that make up the federation. Nigeria's social and economic disparity has continually rendered the issue of revenue allocation and fiscal responsibilities functions the most controversial aspect of the country’s federal system. Some of these challenges that bedeviled fiscal federalism are improper application of true federalism, criticism on the mode of determining equitable and acceptable revenue sharing formula; neglect of tax bases of various component entities, and unbalanced in fiscal responsibilities and functions.

To Amobi (2020) inter-governmental relations mean the relationships between the various government levels from the federal, state to the local government level; between the various ministries and parastatals, etc. He argued that there are three discernible levels of intergovernmental relations in a unitary structure, but six levels are in a Federation like Nigeria. These levels are:

i. Federal-Federal-Stations
ii. Federal - State - Local Relations
iii. Federal - Local Relations
iv. State - State (Inter-state) Relations
v. State - State-Locations
vi. Local - Local (Inter-Local) Relations.

A close look at the political landscape of Nigeria, one will no doubt agree that federalism and inter-governmental relations (IGRs) in the country have been undergoing a series of transformations, particularly from military administration to a democratic dispensation. This paper aims to examine the fiscal relationship between the federal and state governments under a democratic setting in Nigeria. The paper also attempts to establish the assignment of fiscal and revenue/tax responsibilities of both federal and state governments during the political dispensation between 1999 and 2024. The 1999 constitution has spelt out the various responsibilities of the Federal Government in the Exclusive Legislative list and those of state governments in the Concurrent list. How do they seek to establish what the factors are negating the principles of true fiscal federalism? The questions that this paper seek to probe is does fiscal federalism achieves its objective. How does this principle help in nurturing true fiscal federalism in Nigeria?

METHODOLOGY

The study is documentary research and uses content analysis to draw its findings, conclusions, and recommendations. Content analysis allows researchers to draw inferences about the meaning and context of the policy statement or document being analyzed. It derives its data from the Central Bank of Nigeria (CBN) website, the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) website, and peer-reviewed journals downloaded from the Google Scholar website. Central Bank of Nigeria and RMAFC are the main custodians of data on government fiscal operations at Federal, State, and Local Government Councils in Nigeria; therefore, data for this study were culled from the official bulletin of these agencies. Data on the Revenue Sharing Formula, the Percentage distribution, derivation of revenue were sought and coded. The choice of this method of data collection was informed by the focus of this study, that is, Federal–State Fiscal Relations under Democratic

Governance: A critical analysis of Nigeria's Experience. This is reflected in the fact that a series of publications have been made on issues regarding fiscal federalism in Nigeria. Thus, a critical assessment of challenges militating against the fiscal federalism of Nigeria was examined.

Conceptual Clarifications

Federalism

The definition of K.C. Wheare in his work, Federal Government, first published in 1946, gave federalism a scholarly recognition (Aliff, 2015). He conceived federalism as "a system of government in which authority is divided between national and regional governments so that each remained, within a sphere, coordinate (i.e., legally co-equal) and independent." (Aliff, 2015). This definition reveals the existence of more than one level of government, but there may not be absolute independence, as a level may depend on another tier to carry out certain responsibilities, with each constitutionally enjoying co-equal legal and independent powers.

Federalism can be defined as an effective system with the normative appeal and institutional sophistication to manage complex socio-economic, cultural, and political issues at national, regional, and international levels (Gebeye, 2019). Like democracy, federalism has turned out to be the most beautiful bride for most plural societies, even amidst its adoption and its use as an appellation to galvanize and not integrate a diverse populace (Amobi, 2020).

Federalism is a political concept in which the power to govern is shared between national, state, and local governments, creating what is often called a federation (Arowolo, 2011; Akindele and Olaopa, 2002). Arowolo (2011) states that "It is a political theory that is divergent in concept, varied in ecology and dynamic in practice". According to Vincent (2001), the concept of federalism implies that each tier of government is coordinated and independent in its delimited sphere of authority and should also have appropriate taxing powers to exploit its independent sources of revenue.

Scholars have approached its definition from various perspectives, reflecting their diverse orientations and backgrounds; however, no single one has been universally accepted (Amire & Okufuwa, 2020; Ewefa *et al*., 2020; Oni & Faluyi, 2018; Amah, 2017; Olowu, 1991). American inventors of federalism, such as James Madison, John Jay, and Alexander Hamilton—the authors of the Federalist Papers—laid the intellectual groundwork for the concept. This classical formulation was further developed by scholars like Kenneth Wheare, who provided a foundational definition of federalism as a system in which sovereignty is constitutionally divided between a central authority and its constituent units. Contemporary proponents of this ideology, including Carl Friedrich, Amitai Etzioni, Ben Nwabueze, and Adele Jinadu, have continued to explore and adapt the theory. These scholars commonly agree that federalism involves a constitutionally guaranteed division of power, ensuring that both the central government and its subnational units maintain distinct spheres of responsibility.

For Amadi *et al.* (2017), federalism seems "a banal idea - not more than a tool kit of the machinery of government for managing regionally complex centrifugal and centripetal forces in political systems". Federalism isn't just a fancy term for how government powers are divided; it's a way of making sure that different levels of government, national and local, can both have a say in how things are run. It's about sharing power so that one group doesn't control everything. For the average person, federalism means that your local and state governments have the power to make decisions that directly affect your community, while the national government handles bigger issues like defense and foreign affairs. It helps balance unity with local independence. Hence, the torchlight beams further to the views of Prof A.V. Dicey and K.C. Wheare as cited in Dikishit (1975) that "federalism is born when political communities in an area desire union without desiring complete unity". Dicey, as cited in Onwughalu, Obiorah, Chiamogu, and Chiamogu (2019), defined federalism as "a political contrivance intended to reconcile national unity and power with the maintenance of state rights". Those views, as advanced by these scholars, are two-pronged: pointing to the existence of common and parochial interests.

In this context, local interests reflect the desire of each unit to retain enough power to manage issues they see as uniquely their own, while shared interests show their understanding that cooperation brings mutual benefits. This suggests that the units want a flexible union that lets them preserve their distinct identities. According to Wheare, as cited in Obi (2019), key features of federalism include a clear division of powers between government levels, a written constitution outlining this division, and coordinated authority between the two levels in carrying out their respective responsibilities.

Intergovernmental Relations

Intergovernmental relations refer to the complex interactions among different levels and branches of government within a political system, serving as a practical expression of federalism. These relations involve how the central government allocates funds and resources to state and local governments through political, financial, administrative, and program-based mechanisms. Essentially, they are the rules and systems that guide how governments coordinate and collaborate. As Phillimore (2013) explains, they include the structures that enable communication and cooperation among governments. Similarly, Obi (2004) describes intergovernmental relations as the interconnected, cooperative, and interdependent relationships among various government levels. These relations can be formal or informal and involve a wide range of transactions and engagements among governments within a country.

In Nigeria, for example, intergovernmental relations encompass the interactions between the federal, state, and local governments, as well as relationships between states, between states and local governments, and among local governments. According to Olowu (1991), the federal-state relationship has traditionally been seen as a standard feature of federal systems. However, since the formal recognition of local governments in 1976, the scope of intergovernmental relations in Nigeria has broadened significantly.

The constitution defines the powers of each level of government; intergovernmental relations remain a widely debated topic due to their naturally conflict-prone nature. The term generally refers to all forms of interaction between different levels of government. These relationships vary across federations, shaped by factors like history, geography, population size, and formal constitutional structures. In Nigeria, most intergovernmental relations occur between the federal and state governments, and between state and local governments, while interactions between states receive relatively little focus.

Fiscal Relations

In Nigeria, fiscal federalism refers to how taxing and spending powers are shared among the federal, state, and local governments. As noted by Akindele and Olaopa (2002), fiscal federalism is a key pillar of Nigeria's federal system. It involves the financial relationships between the three levels of government, particularly how the federal government allocates national resources to state and local governments through grants and other forms of financial support. The paradox of Nigeria's fiscal system is that it focuses more attention on 'sharing' than 'generating'. In other words, increased revenue generation has attracted less attention than revenue sharing (Paul *et al*., 2008). This is because oil remains the highest contributor to the distributable pool of the federation. The over-dependence on oil has become a propelling wind of regional agitations instead of energizing efforts towards diversification of the economic base for a virile and durable economy. This imbalance has undermined their ability to operate as an independent tier of government with constitutionally defined roles and responsibilities.

Fiscal Responsibilities and Their Assignment among the Tiers of Government

The current assignment of responsibilities among the Federal Government and the other tiers of government or the various units of the Nigerian federal system is set out in Part II of the 1999 constitution of the Federal Republic of Nigeria (Dordum, *et al*., 2021). The Exclusive Legislative List relates to those on which only the Federal Government can act, and the Concurrent Legislative List relates to those on which both the Federal and the State Government can act, and the Fourth Schedule provides the list of functions of the Local Government Councils.

Responsibilities that can be more efficiently undertaken by the Federal Government than the State Government include the following - National defense; Shipping; Federal trunk roads; Aviation; Railways; Posts, telegraphs, and telephones; Police and other security services; Regulation of labour, interstate commerce, telecommunications; Mines and minerals; Social Security; Insurance; National statistical system; National Parks; Guidelines for minimum education standards at all levels; Water resources affecting more than one state (Ewetan, 2011).

The Concurrent Legislative List includes duties that primarily benefit local communities but may also have wider effects across regional boundaries. University and post-secondary education, health and social welfare, scientific and technological research, statistics and surveys, industrial, commercial, and agricultural development, electricity, antiquities and monuments, and more are among these. When a state law and a law duly passed by the federal government clash, the federal law takes precedence under concurrent powers (Ewetan, 2011). The 1999 Constitution's Section 4(5) states that state law is null and void to the extent of the dispute. However, a state legislation is temporarily dormant if it addresses the same topic that is already completely covered by a federal law without directly conflicting with it. The state law reactivates if the federal law is later repealed.

Dordum *et al.* (2021) argued that apart from normal administrative and political-party mechanisms, there are no explicit constitutional mechanisms designed to promote consensual rather than hierarchical resolution of conflicts between the federal government and the constituent governments. They further said that such conflict resolution is implicit in the establishment and composition of certain bodies, such as the National Council of States and the Federal Character Commission, whose membership consists of federal and state representatives. Conflicts of Power and Jurisdiction between the Federal Government and the States after years of prolonged military rule, Nigeria's current democratic experience has been beset with intergovernmental conflicts on issues ranging from the authority to prescribe the tenure of local government councils to the authority to enact legislation on corruption (Paul *et al*., 2008).

The Constitution does not expressly employ any mechanisms to forestall the development of power conflicts between the federal government and the states. The Constitution vests the Supreme Court with the original jurisdiction, to the exclusion of any other court, to determine any legal dispute between the federation and a state or between states (Mu'azu *et al.*, 2017). Because the Supreme Court is the court of last resort, this expedites litigation because such cases do not have to wind their way up through the normal, often slow, judicial hierarchy (Ignatius and Daka, 2021).

Responsibilities whose benefit areas are purely local in the chart sense that the benefits accrue in the main to a limited geographic area within the federation are usually assigned to local government councils. According to Mu'azu *et al.* (2017) these responsibilities include the following: - Primary, adult, and vocational education; Health services; Development of agriculture and non-mineral natural resources; Economic planning and development; Cemeteries, and burial grounds; Homes for the destitute and infirm; Markets; Sewage and refuse disposal; Roads, street lighting, drains, other public facilities.

Revenue/taxing Responsibilities Assignment among the Tiers of Government

Anyanwu (1997) submitted that each tier of government shared assigned revenue/tax sources commensurate with its responsibilities. According to him, it is very important to reconcile considerations of efficiency (minimization of resource cost) with equity (rationalization of expenditure and revenue needs). It is in this light that certain principal principles become imperative: progressive redistributive taxes should be central; taxes suitable for economic stabilization should be central while the lower level taxes should be cyclically stable; tax bases distributed highly equally be jurisdiction should be centralized; taxes on mother bile fa or of production are best administered at the center; residence based taxes such as sales of consumption goods to consumer or exercises are suited for states; taxes on completely immobile factors are best suited for local level; and benefit taxes and user charges might be appropriately used at all levels (Musgrave, 1959). In the process of assigning tax and revenue powers, it's important to distinguish between revenues that belong solely to one level of government (independent revenue) and those that, although collected by one level, are shared with other levels of government. In the latter case, such revenue is deposited into the Federation Account for distribution among the different tiers of government.

The Nigerian Constitution grants the Federal Government authority to collect taxes such as import and export duties, excise duties, mining rents and royalties, companies' income tax, petroleum profit tax, value-added tax (VAT), and sets the legal basis for personal income tax and capital gains tax. State governments are responsible for collecting taxes like football pools and betting taxes, entertainment taxes, estate and gift duties, property taxes (excluding agricultural land), land registration fees, and also handle the administration of personal income tax, capital gains tax, and stamp duties. Local governments collect revenues from market and trade licenses, rent rates, motor park fees, advertising charges, entertainment levies, and radio/TV license fees, as outlined in the 1999 Constitution.

Looking at the above paragraph, it clearly shows that all the major sources of revenue come under the jurisdiction of the Federal Government. The state and local governments have jurisdiction over minor and poor-yielding revenue sources. The proportion of the combined state and local government revenues and that of the Federal Government is very wide, and therefore, this led to serious over-dependence of lower levels of government (States and Local Governments) on the federal level's finances.

With the federal government having a much stronger financial position than the lower level of governments, there has been a noticeable imbalance in the distribution of revenue and tax powers in Nigeria. For the most part, state governments have relied on federal allocations for over 70% of their recurring revenue, and because the federal government has a greater capacity to generate income to fund its responsibilities than the states, most state governments, except a few, like Lagos and Rivers—frequently operate with budget deficits. At the moment, Nigeria's financial structure centralizes the majority of revenue at the federal level, which is then disbursed to states and local governments through the Federation Account and the State-Local Government Joint Account (Paul *et al.*, 2008).

Revenue Allocation

Revenue allocation is referred to as the redistribution of fiscal capacity between the various tiers of government. It is the transfer of financial resources from one level of government to another level that arises because of the revenue advantage that the former has over the latter, mostly because of the powers conferred on it over tax revenues (Anyanwu, 1997). He further submitted that revenue allocation in Nigeria is taken as the distribution of national revenue among the various tiers of government of the federation in such a way as to reflect and obey the structure of fiscal federalism.

In Nigeria, revenue allocation has emerged as one way out not only to enhance economic growth and development but also to promote efficiency, equity, and national unity and minimize inter-governmental tensions (Anyanwu, 1999). He argued that the existence of federalism, embodying many governmental units, necessitates revenue sharing, and what to share depends on the availability and the amount of revenue, as well as on the formulae and principles. The formula refers to the system of weights or relative weights (percentages) assigned to the intergovernmental sharing and the principles of intergovernmental sharing. On the other hand, the revenue allocation principles refer to the rules or factors applied in revenue allocation among states and local governments (Anyanwu, 1997).

Revenue Allocation Formula in Nigeria since 1992 to Date

Richard & Eme (2015) submitted that the revenue allocation formula, which was recommended in 1992, was used till the advent of democracy in 1999. They argued further that it has the following features: FG 48.5%, State 24%, LGCs 20%, and Special fund 7.5% (which was distributed: FCT 1%, Ecology 2%, Stabilization 1.5%, and Natural Resources 3%).

The first proposal in the Regime of President Olusegun Obasanjo which was submitted to National Assembly from RMAFC had this proposal: FG 41.3%, States 31%, LGCs 16%, and Special Funds 11.7% (i.e. FCT 1.2%, Ecology 1%, Natural Resources 1%, Agriculture and Solid Mineral Development 1.5% and Basic Education 7%) (Richard & Eme, 2015). Before the National Assembly could debate that proposal, there was a Supreme Court verdict in April 2002 on the Resources Control Suit, which nullified the provision of Special Funds in any given Revenue

Allocation formula (Richard and Eme, 2015). With that new development, the formula in operation then (from 1992) had to give way as President Olusegun Obasanjo invoked an Executive Order in May 2002 to redistribute the formula to reflect the verdict.

The Executive order, which is acceptable by law, gave FG 56%, States 24%, and LGCs 20%. But when there was an outcry from other tiers against that distribution, the President reviewed the Executive Order in July 2002 with some adjustments by a fraction where the FG had 54.68%, States 24.72%, and LGCs had 20.60% (Richard & Eme, 2015). In March 2004, the then Minister of Finance, Dr. Okonjo Iweala, issued a letter modifying the second Executive Order that increases state allocation to 26.72% and reduces FG to 52.68% (Pilla, 2023). They maintained that the ministerial circular on the modification has since been the index for the monthly distributions from the Federation Account. Under the current revenue sharing formula, the federal government takes 52.68 percent, the states 26.72 percent, and the local governments 20.60 percent, with 13 percent of derivation revenue going to the oil-producing states (Richard and Eme, 2015).

How the Government Distributes Revenue–Sharing Formula

Edet & Harrison (2021) submitted that there are two components of the revenue allocation formula used for the disbursement of the Federation Account to the three tiers of government.

1. **Vertical Allocation Formula (VAF). Horizontal Allocation Formula (HAF)**

The Vertical Allocation Formula:

According to Edet & Harrison (2021), this formula shows the percentage allocated to the three tiers of government, i.e., federal, state, and local governments. They argued further that the formula is applied vertically to the total volume of disposable revenue in the Federation Account at a particular point in time. The Vertical Allocation Formula (VAF) allows every tier of government to know what is due to it; the Federal Government on one hand and the 36 States and the FCT and 774 Local Governments on the other (Amobi, 2020).

The Horizontal Allocation Formula:

In the horizontal formula, Edet & Harrison (2021) said the formula applies to States and Local Governments only. It provides the basis for sharing the volume of revenue already allocated to the 36 States and 774 Local Governments. According to them, through the application of the principles of the horizontal allocation formula, the allocation due to each State or Local Government is determined. Thus, it can conveniently be concluded that the vertical allocation formula is for inter-tier sharing between the three tiers of government, while the horizontal allocation formula is for intra-tier sharing among the 36 States and the 774 Local Governments in Nigeria (Babalola, 2015).

Ewetan, (2012), argued that the approved Allocation of Revenue (Federation Account, etc.) Act of 2004, states as follows: The amount standing to the credit of the Federation Account, less the sum equivalent to 13% of the revenue accruing to the Federation Account directly from any natural resources as a first-line charge for distribution to the beneficiaries of the derivation funds, by the Constitution shall, be distributed among the Federal, States and Local Government Councils in each States of the country on the following basis:

- Federal Government = 56%
- State Government = 24%
- Local Government Councils 20%

Ewetan (2012), further submitted that the vertical allocation of revenue by the Federation's accounts Allocation Committee, the horizontal allocation is applied, thus:

56% of Federal Government Revenue Distribution

56% of the total revenue allocated to the Federal government will be utilized/distributed as follows:

- Federal Government = 48.5%
- General Ecological Problems = 2%
- Federal Capital Territory = 1%
- Stabilization Account = 1.5%
- Development of Natural Resources = 3%

Total = 56%

24% of State Government Revenue Distribution
The 24% standing to the credit of all the states, from the Federation Account, shall be distributed among the 36 states of the Federation.

The factors for distribution are specified in the Act and buttressed by Ejikeme (2012), as follows:

(a) **Land Mass:** The landmass of a state or local government shall be the proportional area size (PAS) of the State or the Local government to the total size of Nigeria, and shall be determined as follows:

For each state:
PAS = (Proportional Area Size of State x 100) /Total Area Size of Nigeria (Nwafor, 2009).

$$\text{PAS (STATE)} = \frac{\textit{Area size of state}}{\textit{Total area size of Nigeria}} \times 100\%$$

For each local government:
PAS = Proportional Area Size of the Local government/Total area size of Nigeria (Nwafor, 2009).

$$\text{PAS} = \frac{\textit{Area size of local government area}}{\textit{Total area size of Nigeria}} \times 100\%$$

(b) **Terrain:** Allocation due to terrain is made based on the proportional area size of the three identified major terrain types present in the State or Local government area, respectively (Ejikeme, 2012), which are:
- Wetlands/water bodies
- Plain; and
- Highlands

(c) **Education:** This parameter for allocation to Social Development Factor (SDF) shall be measured in terms of primary school enrollment, which attracts 60% of the allocation, while the remaining 40% is made using secondary/commercial school enrollment.
The allocation of primary school enrollment is made solely on a direct proportion. About 50% of the allocation based on secondary/commercial school enrollment is made in direct proportion, while the remaining 50% is made in inverse proportion. School enrollment refers to public-funded schools only (Ejikeme, 2012).

(d) **Health:** This has a parameter for allocation to the social development factor that should be measured in terms of the number of State/Local government hospital beds there. 50% of the allocation to health shall be made in direct proportion to the number of state hospital beds, while the remaining 50% shall be made in inverse proportion (Ejikeme, 2012).

(e) **Water:** This is a parameter for allocation to the social development factor shall be represented by the mean annual rainfall in the state headquarters and the territorial spread of the state. 50% of the allocation to water shall be made in direct proportion to the state territorial spread, while the remaining 50% shall be made in inverse proportion to the mean annual rainfall in each state headquarters, using the most current 5-year figures. This is the same for all the states (Ejikeme, 2012).
Macheal (2013) has noted that 24% allocation to the 36 states and Abuja treated as a State for this purpose is redistributed, using the following criteria:
- 40% was allocated to the equality of all states
- 40% of the population
- 15% on social development, e.g, primary school enrollment and;
- 5% on the internally generated revenue effort.

Problem of Fiscal Federalism in Nigeria
The nation operates a federal fiscal system designed to address the financial needs of its various levels of government. In an ideal federation, all tiers—federal, state, and local—should collaborate closely to form policies based on mutual agreement. This cooperative relationship can only thrive if no level of government is financially dependent on another. In a true federal system, each level should have the autonomy and resources necessary to carry out its constitutional duties independently. However, Nigeria faces significant challenges in this regard.

Issues with Revenue Allocation Criteria

One of the most contentious issues in Nigeria's fiscal federalism is the method used to determine revenue sharing. States often push for allocation formulas that favor their strengths. For instance, criteria such as landmass, terrain, and population size heavily influence how much each state receives from oil revenues. This system disproportionately benefits some states that contribute little to national revenue, while disadvantaging oil-rich regions like the Niger Delta, which accounts for 70% to 80% of the country's income. This imbalance is a major source of intergovernmental conflict and regional agitation.

Nigeria's fiscal system differs significantly from those in other federations, as it does not consider the economic productivity of each region. Instead, it relies on controversial and politically influenced criteria, allocating large shares based on population and land area, regardless of a region's actual contribution to national wealth.

This has led to disputes over population data. For example, during the 2006 census, Lagos State challenged the population figures released by the National Population Commission (NPC), arguing they were inaccurate. Lagos even conducted its census, which reported a higher population. Despite this, only the federal government - through the NPC - has the legal authority to conduct censuses and declare official population figures. Since population accounts for 30% of the revenue-sharing formula, any attempt by states to contest the figures has been resisted, sometimes under the guise of constitutional interpretation, as seen in the debate over offshore and onshore oil revenue.

2. Lack of True Fiscal Decentralization

In Nigeria's federal system, fiscal powers are shared among the federal, state, and local governments. However, the federal government holds dominant control, with most legislative and financial powers assigned to it through the exclusive legislative list. States have limited power under the concurrent list, and local governments have even fewer responsibilities under the residual list.

Although the constitution outlines areas where both the federal and state governments can legislate, in practice, the federal government handles most responsibilities, even those meant to be shared. For example, issues like federal roads, power generation, scientific research, and higher education are primarily managed by the federal government, leaving states with little authority or financial support, even when they attempt to establish universities or undertake development projects.

Security is another area where central control has proven inadequate. With the worsening state of national security, there have been growing calls to allow states to establish their police forces or support community policing. Because state governments are closer to the people, they are better positioned to address local security challenges, but they lack the necessary autonomy and funding.

In many cases, responsibilities are merely assigned to the states on paper, without corresponding financial resources. The federal government continues to control and allocate funds centrally, resulting in a system where the center holds significantly more power than the states and local governments. This central dominance undermines the federal structure and reflects deeper political issues, including how leaders interpret and practice federalism in Nigeria.

3. Sharing of the National Revenue

The country is yet to settle the issue of how the nation's resources are to be allocated vertically among the three tiers of government and horizontally, among the states, as well as among the local government units. Some are of the view that the debate on Nigeria's fiscal relations hinges on the fundamental question of who gets what of the 'national cake, when, and how? (Odoko, & Nnanna, 2009)To this end, it was opined that this is fundamental, given that Nigeria, as a monolithic economy, gets over 80 percent of its revenue from crude oil. By the constitutional provision, this revenue must be disbursed to the three tiers of government. It also explains why the formula for revenue allocation has continued to be at the heart of the public debate, and why public office holders are hardly held accountable for the misuse of revenues derived from the national oil wealth. It was observed that the federal government has not justified its lion's share of the country's revenue with small expenditure assignment, and that is why waste and corruption have become its hallmark. (Nasir, 2011)

The challenges of fiscal federalism in Nigeria hinge on the equity of the expenditure assignment and revenue-raising functions among the three tiers of government. The revenue sharing and expenditure assignment formula has been generally inadequate in addressing the needs and resource gaps in the three tiers of government (Odoko & Nnanna, 2009). A situation where only the federal government gets 52.68% of the total revenue without a corresponding responsibility, while leaving the states and local governments with 26.72% and 20.60%, respectively, is neither fair nor just.

4. IVFunctional and Tax-Raising Power in Nigerian Federalism

The distribution of responsibilities among the various levels of government in Nigeria's federal system is defined in the Second Schedule of the 1999 Constitution of the Federal Republic of Nigeria. This section outlines three categories of legislative authority: the Exclusive Legislative List, the Concurrent Legislative List, and the Residual Legislative List—the latter referring to matters not explicitly mentioned in either of the other two lists.

Under the 1999 Constitution, matters on the exclusive list fall solely under the jurisdiction of the Federal Government. Responsibilities on the concurrent list can be handled by both federal and state governments, as provided in Part II of the Second Schedule. Notably, this division of functions between the different levels of government has remained consistent from the 1979 Constitution through to the present. Additionally, the structure for assigning taxation powers in Nigeria has shown remarkable consistency over time. According to Onwe (2011), there have been no significant changes in the tax-raising arrangements over the past thirty years.

The 1999 constitution of the Federal Republic of Nigeria has outlined the procedure for disbursing the 'Distributable Pool Account to the three levels of government as per section 162(1)(2). Such an outlined procedure is theoretically expected to provide adequate financial resources for the different tiers of government to meet their constitutionally assigned functions and responsibilities. Unfortunately, irrespective of this constitutional delineation of responsibilities and functions among the three tiers of government, the dynamics of federalism have unconsciously or consciously subordinated the apparent lower tiers of government to the center (Bello-Imam & Agba, 2004).

5. Corruption and Oil Revenue-Sharing

The emergence of some local elite and pressure groups as a 'political force has characteristically been propelled by self-seeking and self-styled ethnic, sub-ethnic group political leaders, who are seeking a niche for themselves in the country's enormous "apple pie", to enable them disburse patronage and to divert state resources to corruptly enrich themselves, under a political economy characterized by "pirate capitalism," (Schatz, 1984), and compounded by lack of accountability (Jinadu, 2002) It is the belief of most Nigerians that: The elites have hijacked the patronage system and perverted it to serve their interest. Indeed, it is the integration of a system of patronage with the facades of bureaucracy and officialdom produced by the postcolonial state that facilitates the corruption that is so ubiquitous in Nigeria (Smith, 2007).

Some people argued that there was no adequate correspondence between the responsibilities assigned to various levels of government and the sources of revenue assigned to them. The federal government enjoys a greater ability to raise revenues to meet its functional expenditure obligations than the states and local governments do (Anyanwu, 1995). Nevertheless, allocations to states and local governments shows that the issue of lack of revenues is only a minor part of socio-economic development crisis in Nigeria, but the major issue at the root of it is the lack of accountability and mismanagement of resources and this is the bane of the development effort at the federal and other tiers of government.

DISCUSSION

Federalism is practiced by many countries of the world. As a political system, it was adopted in Nigeria to cater to our diversities and heterogeneity of the country's different societies. The Nigerian constitution is always written and spells out the powers and functions of Federal, State, and Local governments. The essence is to avoid conflict and controversy that may arise between the levels of intergovernmental relations. Federalist theory holds that all tiers of government should work together yet remain autonomous, having the power to carry out their responsibilities without seeking additional funding from above (Pilla, 2023).

Finance is the most critical policy issue in intergovernmental fiscal relations. The issues concerning fiscal relations among the constitutional units of the Nigerian federation that remain mostly unresolved are the divergence between the assigned functions and tax powers; the principle of horizontal and vertical revenue allocation; dependence of state and local governments on the federal sources of funding; the tendency towards concentration and federal presence in the state.

As the Federal – State governments have powers under the concurrent legislative list on collection of taxes, there were overlaps in tax and levy collection by various tiers of government, necessitating a new schedule of taxes being published for all tiers of government and these have not resolved the principle of fiscal relations in Nigeria till today. Federalism does not support the concentration of power to the Federal Government, and is a workable notion for constructing a government in a pluralistic society like Nigeria. The federating States in the principle of federalism should not serve as errand boys. On the other side, if I may say so, they also fail to fulfill the constitutionally mandated intermediate function of exercising legislative and fiscal autonomy.

Summary of Findings

- The study revealed that factors such as landmass, terrain, education, Health, and Water are the indices of distribution for the state government from the federation account. The allocation of high percentages to the population determines how much a state gets from oil revenue sharing.
- It also finds that population census figures generated from population censuses from certain parts of the states are controversial and breed discontent among the federating constituents.
- The study also revealed that fiscal decentralization, where the constitution assigned an exclusive legislative list of powers to the federal government with a relatively small concurrent list of powers to the state government, breeds discontent among the states.
- It further revealed that the sharing of national revenue, where the federal government takes the lion's share of the country's revenue without sufficient justification, and with small expenditure assigned to the federating units.
- Lastly, functional powers / Responsibility functions: Despite the constitutionally assigned functions and responsibilities, the dynamics of federalism have unconsciously or consciously subordinated the states and Local Governments to the central government.

CONCLUSION

This paper analysed the relationship between federal and state intergovernmental fiscal relations, and also dwelt extensively on the nature and crisis of fiscal relations in Nigeria, and concluded that fiscal relations are highly lopsided as they favour the Federal Government against the various state and local governments. The Federal Government always receives a larger amount in the sharing formula and has less impact on the people. The lopsided nature of fiscal arrangement has so far generated suspicion, apathy, and constant overt and covert conflict between the states and the central government. Premised on the analysis, it is deducible that the centralist system of fiscal relations, critical issues of over-dependence on oil revenue, conflicts over the sharing principle, and disharmonious federal-state relations are obstinate challenges that are threatening harmonious fiscal relations in Nigeria and the continued existence of Nigeria as a federal state. The intractable problems arising from the widely unacceptable and constantly conflicting fiscal federalism in Nigeria need urgent corrective measures.

Recommendations

Based on the findings, the following recommendations were made: -

- There is an urgent need for constitutional review, especially as it relates to federalism. As it is, the Federal Government enjoys unlimited power and too many responsibilities in the exclusive legislative list. The constitution should be amended to devolve some powers to state governments of some of its powers that are becoming increasingly alien in modern-day federal practices.

- There should be total reformation of revenue generation, expenditure prioritization, and better relations among tiers of government. State governments should be constitutionally empowered to control their God's given natural resources and to raise taxes/revenues to fund development projects, thereby reducing the ubiquity of the Federal government and allowing state governments to develop at their own pace in line with their peculiar aspirations.
- The appropriate strategies for raising the necessary funds should be adopted, while the formula for the distribution of federally collected revenue needs to be further amended to increase the share of the share. This is because the state governments have certain developmental functions that are vital to the people; therefore, Revenue/Tax responsibilities should translate to fiscal responsibilities.
- There is a need to ensure that the distribution of the revenue encourages each state government to improve internal revenue generation, not to constantly and wholly depend on the funds coming from the federation account. In this case, the tax administration should be decentralized to enhance the fiscal capacity of state governments to carry out their constitutional responsibilities.
- That lasting solutions to problems confronting the Nigerian federation lie in the readjustment of the tax revenue, equitably sharing the power of the federation among the component units, which currently skews in favour of the federal government. Also, it is imperative to embark on radical diversification of the Nigerian economy to other viable and productive sectors of the economy, such as agriculture, mining, industry, and human development.
- The establishment of an appropriate legal framework is essential to optimize the benefits of intergovernmental relationships between the tiers of government. This legal framework must contain detailed principles of cooperation in the course of concurrent or overlapping responsibilities. An independent institution should be established whose mandate is mainly to organize IGR on shared programs. Federations are expected to respond both to central priorities and state and local governments' priorities, and each negotiation should be done in the spirit of partnership and equality rather than hierarchy.

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