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Nigeria Federalism and Fiscal Federalism

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Abstract
Nigeria federalism is beset with structural imbalance and as such true federalism implies that the federating units should pursue their own development at their own pace, utilizing resources within their territory and under their control. In recent times the imbalance in revenue allocation has informed several section of the country to agitate self- determination and resource control. In order to address this ugly predicament, two objectives and research questions were raised to guide the study. The buchan fiscal residuum theory was adopted as theoretical framework for the study. The study relied on secondary data and as such historical design was employed. Content analytical technique was used to analyze the data derived from the secondary sources. Based on the analysis, it was found that the current revenue allocation formula is no longer visible which has also led to several agitations from the federating units. The study recommended among others that revenue allocation formula should favour the federating units more so as to enable them boost their revenue capacity for effective and efficient development.

Keyword: Federalism, true federalism, fiscal federalism, buchan fiscal residuum theory

Introduction

The idea of how society and nations should be organized and managed has been one of the greatest contending issues or concerns of modern political analysts and policy makers. The drive for justice, equality, fairness, accountability, transparency, enduring polity and political stability run through the ages and in the mind of greater thinkers, writers and idealists. Over the years different societies have fashion ways to structure or organized an acceptable system that is imperative and conducive for the administration and management of public affairs. One of such arrangement is federalism. Federalism is seen as a political system where Government powers are shared among the central and other component units. It is a convenient way of political administration and effective management of a nation's wealth that has direct bearing to all components of the central government. According to Abideen and Joseph (2022) federalism is a veritable and viable platform or mechanism for managing plural society with diverse culture, linguistic and social diversity. The authors further noted that, it is the success in bringing these diverse elements into unity that is the determinants of success in other sphere of the relationship of the system. Federation implies the existence of more than one level of government in one country each with different expenditure responsibilities and taxing powers. Nigeria is a federation consisting of states and federal capital territory, federal government, 36 states and 774 local governments (Orhero, 2021). Federalism as a political structure has existed for centuries, but modern times the origin is traced to the American scholar K.C. Whares in 1891 in which he views federalism as political system formed by independent nations who come together in union and where levels of government exist with constitutionally defined sphere, with each level of government, having its own area of jurisdictions that is subject to unnecessary interference by another level but rather coordinate and subordinate to each other, and both levels of government acting directly on the life of the citizen (Whares, 1891, Orhero, Okereka & Ogbe, 2021). Federalism, otherwise known as federal system, is a public sector with both centralized and decentralized levels of decision making in which choices made at each level concerning development and the provision of public services are determined largely by the demands for these services by the residents of the perspective jurisdiction. Thus, Ajibola (2021) maintained that in a federal system, different governments provide different services to overlapping jurisdiction. In Nigeria for instance, the federal system comprises federal, state and local governments while in the United States, federal system includes the federal government, states, counties, townships, cities, school districts and special districts. It is in view of the underlying imperatives of federalism that Okoli (2020) argued that federalism is a system of shared power between units of government. It is a way of organizing a nation so that two or more levels of government have formal authority over the same area and people. From this point, it could be seen that federalism rests on divided sovereignty where state and nation control some portions of political power independent of other's authority.

In federalism, powers are shared among congress, the executive, the courts or judiciary and this shared powers could be separated presumably in order to prevent over concentration of the power and its consequent abuse as to further prevent threats to individual liberty. Okoli (2020) notes that the constitutional supremacy clause makes a valid national law superior to an otherwise valid state law when the two laws conflict. Each government is independent of the other in exercising its constitutional powers. She added that the states may, for example enact and enforce compulsory school laws in their respective states without the federal government's approval. Similarly, the federal government may enact and enforce military conscription in each state without the states' consent. Thus, each government enforces its own laws directly on the people and each may act independently of the other. Among the different levels of government, fiscal arrangement ought to be worked out properly to ensure fiscal balance in the context of macro economic development and stability. In fiscal federalism, the states and local governments depend heavily on the national government for fund for development and to run their various affairs. Fiscal federalism aimed at managing conflicts in pluralized societies Kayode, (2020). It is the system of revenue generation, allocation and redistribution within a federal system. The term fiscal federalism itself is rooted in a political arrangement called federalism. It is therefore, imperative to start with an explanation of the concept of federalism. Fiscal federalism refers to the financial relationships among existing tiers of government. In other types of political structure it is known as intergovernmental fiscal relations. Sometimes, both terms are used interchangeably. Specifically, it is the system of transfers or grants by which the federal government shares its revenues with states and local government. It implies the disposition of tax powers, retention of revenue and method adopted in sharing centrally collected revenue in accordance with the constitutional responsibilities of all the levels of government. It also covers the principles and formula of sharing the centrally collected revenue among the individual states and local governments. This system is what is generally referred to as revenue allocation which is a mechanism used to address the fiscal imbalances which emerge in the process of economic development.

Fiscal federalism has a long history in Nigeria. It dates back to 1946 when the Richards constitution was introduced. Over the years fiscal commissions were appointed to work out fiscal and financial arrangements that were consistent with assignment of powers and responsibilities to each level of government. The idea was that each level of government should have adequate funds to effectively and efficiently discharge its responsibilities. Suffice it say that Nigeria's fiscal federalism has emanated from historical, economic, political, geographical, cultural and social factors. In all of these, fiscal arrangements remain a controversial issue since 1946 (Orhero, 2019; Ekpo, 2020). Therefore, there exist unresolved issues on this matter. The introduction of a democratic experiment in 1999 re-echoed the problems of intergovernmental fiscal arrangement among the different levels of government with the issue of resource control coming to the front burner. The interference by the executive arm of government on the functions of the National Revenue Mobilization and Fiscal Commission (NRMFC) on the appropriate revenue-sharing formula among the different levels of government, the debate regarding the correct interpretation of the section of the 1999 constitution affecting the derivation principles among others have posed challenges for Nigeria's fiscal federalism. The Nigeria federalism is beset with structural imbalance. But true federalism implies that the constituent or federating units should pursue their own developmental programmes at their own pace, utilizing resources within their territory and under their control. But Nigeria's federating units continue to be on the increase resulting in greater pressure being put on available resources. Such pressure makes it impossible for any unit to get fully satisfied with regard to its shares (Orhero, 2020). Paradoxically, revenue allocation in Nigeria has witnessed a plethora of reviews as evidenced by various committees and commissions instituted in that regard (Okeke, 2021). Yet no reliable formula has been evolved to meet the citizen's yearnings and aspirations. Such experienced deficiencies have triggered off many actions among the lower tiers of government who continually complain of fiscal imbalance. Danjuma (2018) writes: The existence of a federal system with its accompanying political units necessitates a revenue sharing arrangement to enable each unit to carry out its constitutionally assigned responsibilities. In federalism the logic underlying the allocation of tax power (revenue sources) does not always tally with the logic underlying the assignment of constitutional responsibilities, there is always a gap between the expenditure obligations and the revenue to these levels of governance. However, during this period, there existed quite a lot of controversies surrounding the nation's fiscal practice that led to some states in the Niger Delta region taking the Federal Government to court (Olugbemi (2020).

Methodology

The study adopted the qualitative research method in which the historical design was used. Data in this study were sourced historically. This technique is appropriate and suitable for this nature of research due to its historical perspectives and orientations. In this regard, the study relied on secondary data which are gotten from the internet, academic journals, publications, books and government bulletins. The data derived from the secondary sources were analyzed qualitatively by providing answers to the research question. The content analytical technique was use to analyze the data by extracting the content of the documents reviewed. Based on the analysis, the following findings were made:

1. The study discovered that the current revenue allocation formula does not favour the federating units rather make to be subordinate instead of coordinate
2. The study revealed that percentage given to the federating units for their development purposes was not enough and as such they are depending on the central government for survival which is detrimental to their development agenda
3. The study found that there is a weak financial based in the federating units and as such no financial authority to effective and efficiently provision infrastructural and social welfare packages to the people in their jurisdictions
4. The study revealed that there are many leakages in the sources of revenue generation and collections in states and local governments which post potential threat to their developmen
5. The study found that this imbalance revenue allocation from the central government has made the Niger Delta states to agitate for self determination and resource control

Result and Discussion

Buchan Fiscal Residuum Theory

In a federating system, one of the greatest challenges is that of sharing formula as regards to the fiscal resources generated and jointly owned by the federating units. Public finance departments are usually involved in the sharing of fiscal resources between three levels of government i.e. federal, state and local as is the case with Nigeria. The pre-occupation of public finance experts in this connection has been the examination of the extent to which the important principles of horizontal equity and efficient allocation of resources are fulfilled in the context of fiscal federalism. Arising from the above point and from the numerous problems of fiscal federalism, this study is anchored on Buchan Fiscal Residuum Theory. Buchan (1982) believes that a more meaningful approach to the problems of fiscal federalism is that one should take into account, the overall fiscal pressures on an individual. According to Buchan, the measurement of this in terms of the Residuum Theory is to determine the balance between the contributions made and the value of the public services returned to the individual. Given the state of income distribution, Buchan thinks that the Fiscal Residuum should be negative for low income individuals or states and positive for high income individuals or states. For the achievement of horizontal equity between individual, the necessary and sufficient condition according to Buchan is that their fiscal residual be equal. The implication of horizontal equity for a particular citizen or state has to do with the relative poverty or richness of a state within a country, or locality within a state. If a state or a locality is poor relative to another, the level of taxation needed in the former to bring the level of public services to that existing in the latter will be much higher, imposing a heavier tax burden on the citizens of the relative poor state. According to Buchan, such situation is undesirable. He argues that it does not only violate principles of fiscal equity, but also that of efficient resources allocation. However, because of the constitutional barrier that exists in some federating states like United States and Nigeria which impedes such a means of transfer, Buchan accepted a second best solution of intergovernmental fiscal adjustment in what he called "Unconditional Equalization Grants". The relevance of this theory to this study is seen in Nigerian case where some states are poor in revenue generation for the nation, while some are very rich in generating revenue for the nation, especially the oil states. Going by residuum perspectives, it could be seen that some poor states in the country can be having some weight of tax burden, but going by the unconditional equalization theory, all the federating states can share equality in fiscal federalism and this will enhance equal development.

Review of Related Literature

Federalism

In the words of Hague and Harrop (2017), the distinctive feature of federalism is that legal sovereignty is shared between the federal government and the constituent states. They went further to add that a federal constitution creates layers of government with specific functions allocated to each. The relationship between federal and state governments according to Hague and Harrop (2017) are the crux of federalism. Sagey (2008) conceptualized federalism as "an arrangement whereby powers within a multi-national country are shared between a federal government and component units in such a way that each unit, including the central authority exits as a government separately and independently from others, operating directly on persons and prosperities with its territorial area and with a will of its own apparatus for the conduct of affairs and with an authority in some matters exclusive of others. Federalism refers to a political system where there are at least two levels of government. In such cases, there is juxtaposition of two levels of power of a central government otherwise called the federal government and other states labeled variously as states, regions, republics, cantons or unions (Ajayi, 2020). Federalism is a system in which the power to govern is shared between national state governments, creating what is often called a federation (Akindele and Olaopa, 2021). According to Friedrisech (1937) federalism is a union of group selves united by one common or more objectives, but retaining their distinctive group beings for other purposes. By this conception, it is correct to accept that federalism is at the inter group level what association is at the interpersonal level. It unites without destroying the selves that are uniting and is meant to strengthen them in their mutual relations. In the words of Ricardo (1993), Federalism is a process without required form or practices, a process constantly in a flux under evolution… a conceptualization with some human systematic analysis, brought to show that federalism thrives in a continuous flux. That it involves fluidity wherein the federalists from the units allow for processes of continued evolution towards the emergence of greater good for all through compromise in their diversities. It is imbued with capabilities inherent in the various units and subsuming them. Corroborating the above, Onwe (2020) maintained that federalism is the putting of understanding and bonds through agreement in law between independent entities to satisfy the need for autonomy and freedom, on the one hand, and for order and security on the other hand. He went further to add that federalism is an Omnibus concept that contains as much characteristics as can be assigned to it, so long as such are signed for the good of all in pursuit of unity in diversity. He concluded that some scholars have come to conceive federalism from predominantly legalistic postulations. Thus, Gamble and Payne (2021) observed that "federalism is a formal legal set of relationships aimed at the distribution of power between central and peripheral units of government. Thus, there must exist at least two tiers of government. The need for a legal structuring of the federation units can further be understood when we look at the security needs of the units. The desire here is for legal orders that protect each unit from threats of over aching interests that are abound to emerge within the federation to the units. This is why federations are characterized by extensive intergovernmental relations in which federal, state and local governments work together, seeking to identify policies on which all participants can agree

Fiscal Federalism

According to Elaigwu (2021), in most federal countries, one of the most constant sources of squabbles among the tiers of government has to do with securing adequate financial resources on the part of lower levels of government to discharge their political and constitutional responsibilities.

According to Sagay (2008), federalism is an arrangement whereby powers within a multi-national country are shared between a federal government and component units in such a way that each unit, including the central authority exists as a government separately and independently from others. The unit operates directly on persons and properties within its territorial area and with a will of its apparatus for the conduct of affairs and with an authority in some matters exclusive of others. Fiscal federalism on the other hand is concerned with the division of public sector function and finance among different tiers of government (Ozo – Eson, 2015). In undertaking this division, economics emphasizes the need to focus on the necessity for improving the performance of the public sector and the provision of their services by ensuring a proper alignment of responsibilities and fiscal instrument (Akindele, 2020). Perhaps the most important issue in the fiscal federalism is revenue allocation formula, which involves the sharing of national revenue among the various tiers of government and the distribution of revenue among the states and local governments. In fact, fiscal federalism is the framework for the assignment of functions and appropriate fiscal instruments to the different levels of government for carrying out these functions (Mbanefo and Egwakhide, 2021). However, Akpan (2019) sees fiscal federalism as a set of guiding principles and guiding concepts that help in designing financial relations between the national and sub-national levels of government. It is apparent that each unit of government within a federation exists, not as an appendage of another government, but as an autonomous entity capable of conducting its own will free from directive by any other government. Fiscal federalism refers to the realization of tax raising powers and expenditure responsibilities between levels of governments (Orji and Jaja, 2020). Fiscal federalism concerns the division of public sector functions and finances among different tiers of government.

According to Aluko (2020) the objectives of fiscal relations among units in a federation include the following; to ensure correspondence between sub-national expenditure responsibilities and their financial resources (including transfers from central government) so that functions assigned to sub-national government can be effectively carried out; to increase the autonomy of sub-national government by incorporating incentives for them to mobilize revenue of their own; to ensure that the macro-economic management policies of central government are not undermined or compromised; to give expenditure discretion to sub-national government in appropriate areas in order to increase the efficiency of public spending and improve the accountability of sub-national official to their constituents in the provision of sub-national services; to incorporate intergovernmental transfers that are administratively simple, transparent and based on objectives, stable non-negotiated criteria; to provide equalization payment to offset the differences in fiscal capacity among states and among local governments to ensure that they can offer sufficient amount of key public services; to incorporate mechanism to support public infrastructural development and its appropriate financing and to be consistent with nationally agreed income distribution goals. Fiscal federalism according to Ajibola (2021) denotes an intergovernmental fiscal relation defining functions and responsibilities among the various tiers of government as well as the financial resources to achieve stated objectives. It is a term used to describe a system of government in which the fiscal responsibilities rest with the various tiers of government in the country. In Nigeria, for instance, the federal, state and local governments have the joint responsibility of generating and expending revenue to carry on government responsibilities. Fiscal federalism therefore relates to the division of tax income and functional responsibilities among the various tiers of government in a federal state. Wheare (1985) believes that if states authorities, for example, found that services allocated to them in a federal system are too expensive to perform, and if they call upon the federal government for grants and subsidies to asset them, they are no longer coordinate with the federal government, but subordinate to it.

Financial subordination makes an end of federalism, in fact, no matter how carefully the legal forms may be preserved. It follows, therefore, that both states and federal authorities in a federation must be given the power in the constitution, each do have access to and power to control its own financial resources; each must have power to tax and to borrow for the financing of its own services by itself. Reacting to the above, Onwe (2020) stated that we adopt the above cogent analysis not only as one of our major classical principles upon which true and balanced federalism ought to rest, but also as our standard concept and definition of fiscal federalism. It is neither the federal nor the state or local government in a true federation should be dependent upon each other in performing the statutory duties and functions devolved upon it in a federal constitution. Ozor (2020) argues that in a federalism, it entails that in a federal system of government, the allocation of taxing power, federally collectable revenue and federal expenditure to the different level/components of government in a federation so as to enable them discharge their constitutionally assigned functions and responsibilities to their citizens. He added that in most federations, the taxes of citizens (corporate and biological) constitute the major items that go into the common purse of the federation while in Nigeria, the mining rents, and oil royalties by over 80% account for the largest items in the federation account i.e., the common fund that is shared amongst the units of the federation. In view of the underlying imperatives of fiscal federalism, Okoli (2020) maintained that the principle of fiscal autonomy and fiscal integrity is a sine qua non for the survival and continued existence of a truly federal system of government. She advocated that each level of government–federal, state and local must necessarily have a minimum source of independent revenue and full control of such revenues in order to enable it discharge its constitutional responsibilities. As a matter of the fact, the greater the fiscal independence through internally generated revenue amongst the component states, the stronger the foundation of its federal system and the greater the chances of the survival and continued existence of the federation. It is therefore essential that each unit of the government in the federation must not only have identifiable independent sources of revenue, but that such independent sources should to a large extent, provide a solid base for its revenue needs and economic potentialities.

The Practice of Fiscal Federalism in Nigeria

Revenue allocations and transfers of resource control had become contending issues and debates that had propelled lingering questions on Nigerian federal practices. The most worrisome to national development is the power of government at the centre determining what constitutes revenue allocations and how it would be shared among the federating units. Sequel to this, Eme (2021) argues that the issue of fiscal federalism in Nigeria seems to have derailed national development due to fiscal imbalance, over-dependence on the centre, agitation for resource control, among others. In his view, Babalola (2022), posits that fiscal imbalances occur because constituent units hardly have enough resources to match their expenditure. But, irrespective of how they occur, imbalances must be corrected in order for the federation to continue to exist, and this may take the form of intergovernmental transfers which have the capacity to enable or limit governments in the discharge of their responsibilities. However, Danjuma (2018), posits that fiscal federalism necessitates revenue sharing arrangement to enable the component units carry out their various functions. The fiscal arrangement within the federation should, therefore, adequately cater for the federating units to enable them discharge their constitutional responsibilities. In Nigeria, it involves the assignment of functional responsibilities and taxing powers among the federal, state and local governments. The functions are classified into three. The first is the exclusive list on which only the federal governments can act. The concurrent list contains responsibilities shared by both federal and state government to act while the third, the residual list is reserved for the state government only. Though revenue sharing in Nigeria, has witnessed a plethora of reviews, as evidenced by various committees and commissions instituted in this regard, yet no reliable formula has been evolved in meeting the country's yearnings and aspirations (Teidi, 2021). However, Elaigwu (2021) noted that in terms of resource distribution, the principle of derivation occupied a significant place in the distribution formula. This followed recommendations of the Louis Chick Commission of 1953 which was set up to 'assess the effect, on the public expenditure of Nigeria as whole, of the reallocation of functions between the centre and the regions.

Derivation principle provides for revenue allocation in proportion to the contribution to the federal purse by each state. It was also strongly felt that the principle of derivation which gave 50% of revenues to the old regional governments controlled by the dominant ethnic groups was abandoned in order to enable these same groups to control the oil wealth produced from the oil minority states. Adoption of this principle of derivation as the basis for revenue allocated to the regions increased financial disparity among the regions. In view of this, Teriba (1966) posits that; "Following Sir Louis Chick's recommendations, the Western Region received the largest share of the proceeds of import, export and excise duties as well as the total allocation from about 39 per cent under the 1952-54 regime to more than 41 per cent between 1954 and 1959. The Eastern region declined from 29 per cent to 24 per cent during the period. Though the North maintained the same share but has suffered a considerable loss of revenue through errors of 'defective derivation percentages. Consequent upon the dissatisfaction with the system was agitation for another fiscal Commission Though, introduction of

Distributive Pool Account (DPA) de-emphasized derivation principle. According to Egwaikhide (2021), the application of derivation promoted regional hostility and disunity because it supported uneven development. The current revenue allocation formula poses a lot of problems as it grants minimal fiscal autonomy to the state and local governments in terms of revenue assignments and the major taxes such as company income tax, value added tax, customs and excise duties, tax on petroleum products and education tax are assigned to the federal government.

Vertical Allocation Formula (VAF): This formula shows the percentage allocated to the three tiers of government i.e. federal, states and local governments. This formula is applied vertically to the total volume of disbursable revenue in the Federation Account at a particular point in time. The VAF allows every tier of government to know what is due to it; the Federal Government on one hand and the 36 States and 774 Local Governments on the other (Bashir, 2018). The subject of these sharing schemes is the federally collected revenues. This is because the revenues generated within the jurisdictional areas of the units states and local governments are not subject to the national sharing formula. In the annals of federal countries" revenue sharing arrangements, the sources of the federally collected revenue that form the subject of the sharing formula have remained largely unchanged. These sources which are not amenable to other units include import duties, mining rents, excise units, export duties and royalties (Ovwasa, 2018). The implication of this is that, since these sources of revenue are not amenable to the jurisdiction of the other units of government, the problem of revenue allocation has focused on not who should raise the taxes, but on how to share the proceeds that is, the actual revenue collected by the federal government. The imbalance between functions and resources base, calls for higher level government to transfer revenue to the lower level. Horizontal Allocation Formula (HAF): The formula is applicable to States and Local governments only. It provides the basis for sharing of the volume of revenue already allocated en bloc to the 36 States and 774 Local Governments. Through the application of the principles of 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 amongst the 36 States and the 774 Local Governments in Nigeria (Bashir, 2018). It arises out of the variations in revenue generation capacities of the component units. Where the revenue raising capacities are low, heavier tax burden is imposed relative to higher revenue raising capacities area. This transfer is called "equalization transfer". This transfer is necessary because higher taxation will scare away businesses and the economy of the unit will become more depressed. To avoid this, the higher the federal level of government has to transfer to the lower unit(s), the better, to enable it make up for the differences between its internally generated revenue and those required for maintaining the minimum standard of services.

Nigeria's Experience on Revenue Allocation

Revenue sharing in Nigeria has evolved significantly over the years. Revenue allocation, as it involves the federating system allocating resources to their constituent units for economic activities has been said to have a major issue in the Nigerian political system even from the pre-independence era. At any level, the whole essence of Revenue Allocation is to necessitate a just and fair revenue sharing system. Since Nigeria gained independence in 1960, the relationship between federal government functions and the lower tiers of government have not changed significantly only for few exceptions during the military regimes. About nine fiscal commissions were appointed to examine Nigeria's revenue sharing arrangements between 1948 and 1988. In Nigeria's post-independence, so many fiscal review commissions were set up by different governments to work out an acceptable revenue allocation formula for all tiers of government. Just like other post-independence formulae on revenue allocation, the Okigbo Commission's recommendation was accompanied with controversy, disagreement, and conflict. In recent years, the issues of resource control, revenue allocation and fiscal federalism have dominated discussions at various levels of Nigeria's political debate. In Nigeria, revenue allocation is taken as the distribution of National Revenue among the various tiers of Government in the Federation in such a way as to reflect the structure of Fiscal Federalism as shown in Table 1. Federalism refers the existence in one country of more than one level of government, each with different expenditure responsibilities and taxing powers (Ohiomu & Oluyemi, 2017). The centrally controlled special funds are allocated on the basis of the following indices and percentage weights: equal shares to each state or locality at 40%; population at 30%; social development needs at 10%; land mass and terrain at 10% and internal revenue generation at 10% (Dang, 2013). Normally each tier of Government should be given adequate resources to be able to discharge its constitutional responsibilities, which is very important for the preservation of the autonomy of the constituent units. The importance of revenue generation, allocation as well as its distribution toward maintaining both the existing and new socio-political economic structure in any economy be it centrally planned, market or mixed economies cannot be overemphasized. Principles of Revenue Allocation in Nigeria Revenue allocation refers to the redistribution of fiscal capacity between the various levels of government, or the disposition of fiscal responsibilities between tiers of government.

Revenue sharing arrangement is at two levels: One is the vertical allocation, which is among federal, state, and local councils, second is the horizontal allocation, among the states and the local governments. Revenue allocation is meant to attain two broad objectives, namely, efficiency and equity. However, the allocation formula is guided by certain allocation principles like population, equality of states, internal revenue generation, and landmass and principle of derivation. These principles according to Salami (2019) are exhaustively explained below: Derivation principle. The principle believes that revenue in the federation account should be allocated on the basis of each state's contribution to total revenue. That is, all revenue which can be identified as having come from, or can be attributed to, a particular region or state should be allocated to it. This principle was criticized because it makes rich states (or naturally endowed states) richer because the more endowed or developed states will contribute more to the federation account, starving the less endowed or less developed states of developmental funds. It can therefore, leads to greater disparity among the States and subsequently lead to instability within the country. Principle of Need. The principle advocated that states are not equally endowed with resources, some states are more populated and developed than others, and therefore, more resources should be given to the less developed states to bridge the gap in development. Principle of National Interest. The principle is based on the importance attached to developing all states to increase progress and sense of belonging. It will promote national unity by sharing the revenue in the federation account equally among States. This formula was to strike a balance between equity, and needs of national economic/ political growth leading to stability. Principle of Independent Revenues. This principle advocates that states can introduce or charge revenue-yielding taxes within the state as long as it is a stable source of revenue but must conform to the principles of taxation within the economy and take into consideration national interest.

The Challenges of Fiscal Federalism in Nigeria

The legal basis of fiscal federalism is derived from the past constitutional arrangements and, hence, in any true federalism the fiscal powers of all tiers of government must be related to the functions and responsibilities assigned to them by the Constitution. Constitutionally, Nigeria is a federation, but in practice, and with the assumption of power by successive military administrations, the constitution has always been suspended and the country ruled more or less like a unitary state. The imposition of a centralized unitary system on a federal structure under the military administration partly explains our experience of poor fiscal management and low economic performance which, over the years, had adversely inhibited the true practice of fiscal federalism. The establishment of the federal system in Nigeria was based on rounds of constitutional conferences in England prior to the grant of independence by the British government. Constitutions delineated the functions to be performed by each tier of government. The importance of these constitutional arrangements was to ensure that the statutory fiscal functions and the financial resources to be applied for effective performance of these functions by each tier of government was explicitly stated under the constitution and were to be enforced judiciously. Unfortunately, the statutory shares of state and local governments were reduced through ad hoc fiscal measures such as the stabilization fund, dedication of crude petroleum for expenditure on special federal projects, Petroleum (Special) Trust Fund (PTF), upfront deduction of external debt obligations among others. The overall effect of this on the nation was that the disguised movement towards a unitary state under military administration did not advance the practice of fiscal federalism as the federal system was replaced by an ineffective unitary state Under military administrations, issues of statutory functions to be performed by each level of administration and the allocation of revenue in support of effective delivery of public goods and services were bypassed.

Observing this trend of substantial deviation from fiscal federalism, the Aboyade Presidential Commission on Revenue Allocation (1977) stated as follows: The defacto federal superiority vis-à-vis the states and the huge autonomous increases in revenue accruing to the Federal Military Government resulted in arbitrary aggregation of functions on the part of the centre which normally are matters of constitutional debates and agreement. In addition to legislative measures, executive actions over a number of matters such as the universal primary education, agriculture, higher education, roads, the setting up of ministries of water resources, housing, urban development, environment, and social development youths and sports illustrate the development of this system. Concluding, the Aboyade Commission observed that these measures had tended to detract from true fiscal federalism in Nigeria. This trend, which was first observed in the 1970s, has continued into the 2000s, thus resulting in bloated federal budgets while the fiscal operations for many years resulted in overall deficits. The level of the budget deficits became unsustainable as the federal government assumed fiscal responsibilities which, under the federal constitution, should be performed by the lower tiers of government. The deficit gaps were met largely through credit from the Central Bank with its implications for high rate inflation and low economic growth (Okunrounmu 2017). Another dimension of the military rule that has hindered the practice of true federalism is the incessant and unsystematic creation of new states. The outcome of this was an excessively bloated fiscally structure and many of the states created were not financially viable as they lacked the fiscal capacity to achieve any meaningful development. Another issue is the dominance of the federal government in the sharing of national resources from the common purse popularly known as the Federation Account. The federal government has always had more than what the revenue-sharing formula stipulated. In relative terms, the share of the federal government from the common purse had declined from 70.0 per cent in 1960 to 65.0 per cent in 1963, 55.0 per cent in 1980, 50.0 per cent in 1990 and 48.5 per cent in 1993, and had remained at that level until 2002 when it went up to about 52 per cent. In absolute terms, however, the average share of the federal government has remained at between 60 to 65 per cent in most cases of the years (Sarah et al, 2013).

Fiscal federalism, from the very beginning, raised several fundamental issues. The assignment of responsibilities among federating units in Nigeria has also created problems. First, there was the question of how each level of government would be given adequate fiscal powers to enable it maximize its revenue and discharge its constitutional duties and still preserve its fiscal autonomy. While a reduction of fiscal independence through central administration of a particular tax may conflict with the principle of fiscal independence of states and local government, the hard choice might be between more fiscal powers and less revenue, or less fiscal powers and more revenue. The introduction of value added tax (VAT) which replaces states' sales tax and administered by the federal government is an example of one of such conflicts. Second, there were problems of allocating the centrally collected revenue equitably among all the levels of governments. In order to resolve this problem, various principles had been tried by different fiscal commissions and, so far, there are yet to be fully acceptable principles for sharing revenue. Very often, lack of adequate data for objective analysis had exacerbated, rather than ameliorated, the revenue sharing problem among states and local governments. Third, fiscal federalism had been encumbered in the past by non-jurisdictional problems such as imbalance in population, size of land area, resource endowments and levels of development. Consequently, there has been a growing gap between the requirements of individual states and local government and the revenues they are able to raise on their own. This sharp difference between the very rich and the very poor levels of government tended to influence the principles applied in favour of poorer states, and sometimes at the expense of the richer ones. Fourth, while the creation of states and local governments by the military government was to produce a balanced federation, the emergence and proliferation of states and local governments have continued to pose new problems for intergovernmental fiscal relations. Although, a major objective of the military government in creating states was to reduce the political powers of the regions and play down regional/ethnic politics that was already cracking the new federal structure, unfortunately, it also saw it as an opportunity to use its military might to assert the "supremacy" of federal government fiscal powers over the states.

The present allocation of functions is based on the 1999 Constitution, which divided government functions into three categories of legislative powers. "The exclusive list, on which only the federal government can act; the concurrent list, which contains responsibilities shared by both federal and state governments; and the residual list, which is reserved for state governments. The federal government has responsibility for functions whose benefits extend nationwide, such as, defence, foreign trade, immigration, currency among others" (Akpan, 2019). It also has responsibility for important business undertakings through parastatals, for example, railways, electricity among others, while functions whose benefits have the possibility of spilling over state boundaries were placed on the concurrent list. Local governments, on the other hand, have responsibility for functions whose benefits accrue to a limited geographical area such as markets, primary education, and cemeteries among others. The different formulas that have been used for revenue allocation have consistently increased the financial powers of the federal government against the other levels of government, The allocation of the most productive income-elastic taxes to the federal government have made the centre financially stronger than the states and local governments. The principal effect of this is the increasing fiscal dependence of the lower governments on federally collected revenue (both statutory and non-statutory), and their inability to meet the cost of functions assigned to them. Over-dependence on oil revenue has impacted negatively and posed serious challenges to the issues of fiscal federalism in the country. It has created the leech syndrome whereby the states have become economic appendage of the federal government and eroded the fiscal autonomy of the federating units.

Thus it has created a master servant relationship in which the sub-national governments are at the mercy of the federal government. As long as states and local governments continue to depend on the federal government for their "economic development and survival, the wrangling and controversy surrounding the issue of revenue allocation will remain persistent and a recurrent problem in Nigerian fiscal federalism" (Arowolo, 2019). The overview of the nature and challenges of fiscal federalism in Nigeria have been presented to show deviation from the true practice of fiscal federalism in Nigeria. The main issue is that if the three tiers of government in a federal system were to simultaneously intervene in a market economy, without coordination, and perform the role of the public sector, the situation will be chaotic. Therefore, in order to ensure sustainable growth and national development, it is necessary to understand and institutionalize the policy issues of fiscal federalism. More importantly, the horizontal distribution principles have remained contentious and have been described as unfair by some political zones. The emphasis on population is the most important issue, resulting from complaints that population figures were manipulated in favour of some states. Furthermore, the progressive decline of weights on derivation principle for revenue sharing has also been criticized. The basis of emphasis on derivation was to make the units maximize the yield from available tax sources as well as promote fiscal discipline among the sub national governments. The issue of landmass and terrain undermines the interest of the states with small landmass. The trend of progressive opinion is that this criterion of landmass should be excluded from the revenue allocation system. As it is now, Nigerian fiscal federalism is fraught with so many problems.

Fiscal federalism in Nigeria is characterized with constant struggle and agitation for change and resource control. This is Due to the centrifugal tendencies in our disaggregate federalism. And the challenges is hold on equity of the expenditure assigned to them and revenue raising functions among the three levels of government. The lingering problems are also discussed below: Functions and Tax-Raising Power: One of the problems in Nigeria fiscal federalism is the allocation of functions among component units of the federal system i.e. the federal, state, and the local government. This functions are spelt out in part 1 (one), section 4 of the scheduled of the 1999 constitution of the federal republic of Nigeria. The section specified three main legislative functions, the exclusive legislative list, the concurrent legislative list, and the residual legislative list. In the provisions of the constitution, the federal government has exclusive constitutional responsibilities for functions under the exclusive list. Both the federal and state have control over the concurrent legislative list, according to Aigbepue and Augustine, (2011), the allocation of tax-raising power is the legislative function even during military regime in Nigeria was said to be stable. The 1999 constitution also specified the procedure for the disbursement of the "Distributable pool account to the three levels of government in section 162, (1) (2). This specification was done in order to enable the different levels of government to carry out its function. Despite this specification, there is still a problem between the state and federal government over tax jurisdiction, what level of government should collect what tax and this has led to the existing perceived imbalance among the ethnic groups. (Onwe, 2020). Problem of Acceptable Sharing Formula: According to Nasir (2019), there is a problem with the existing sharing formula. The federal government has not justified its lion share of nations' revenue with small responsibilities to carry out, that this has resulted to wastage and high level of corruption. He went further , that, there is a conflict between the three levels of government in Nigeria over acceptable formula especially the principle recommended by different Revenue Allocation Commission to be used as a basis for revenue allocation and even when accepted, conflict could still arise over the principle that takes precedence on the others that this has being the situation in Nigeria since the period of colonial administration and the introduction of the Richard's constitution in 1946 (Okereka & Okolie ,2023). Odoko & Nanna (2019) also noted that, in terms of revenue assignment, the fiscal system in Nigeria gave little or no room for fiscal autonomy to the regional governments.

That the local level don't put effort to generate revenue internally and they depend on federal allocation, they went further, that there is a difference between the expenditure and revenue responsibilities which is evident in the manner they shared and transfers the nations revenue, which is considered outdated. There is still conflict over the principle of derivation as the acceptable sharing formula. Below are the current formula and the proposed formula which the federal government has not accepted:

Revenue sharing formula	Federal	State	Local government
Current Formula	52.68	26.72	20.60
Proposed Formula	45.17	20.79	21.04

State and Local Government Joint Account: Sagay, (2008) observed that there is an unbridle diversion of local government funds by the state government, to the extent of rendering them idle in development ,the local government is known but as a clearing and forwarding house through which the councils gets their share from the federation account, the position of state was to add a compulsory 10% of internally generated revenue to local government, but the state operators has enmarked the fund for takeover on allocated resources from the federal government, that despite all the reforms to solve the thorny issue, the problem has remain unabated and this has facilitates loyalty of local government chairmen who has no other option but to dance to the tune of the music. On a serious note, the diversion of local government fund is a serious issue and has affected their performance at the local level hence they would have to lobby for what is rightfully theirs (Okereka & Okolie, 2022).

Conclusion

It has been established through this study that the centralized control of resources and political power is no longer viable for the country hence the call for something meaningful and new. The advocates want much of the powers for administration of the grassroots components of Nigeria to be vested in the states and local governments. The limitations of the federal powers are very essential and significant to national development. However the various demands of resource control and true fiscal federalism are issues to contend with. For this study, the solution revolves around the political will of leaders to fine a more sustainable solution to ethnic divisive tendencies plaguing the country. The study recommended among others that:

1. The asymmetry in the revenue allocation formula which gives 50% revenue to federal, 35% to states and 15% to local council should be rationalized in favour of states and local government to boost their competence towards national development in their respective administrative units
2. Since the states and local council are the federating units in a federation, at least 60% of the revenue should be shared between states and local governments in a proportion to be determined by all appropriate stakeholders to be extra receptive to people's need
3. There is need to strengthen the fiscal base of states and local governments, by transfer more revenue heads and eliminating non performing tax heads from their revenue collection
4. The states and local governments must stride towards more effective and efficient collection of sources of revenue generation to block of all leakages in the IGR collection and utilization process
5. The persistent agitation for resource control by Niger Delta States should be given top priority and addressed not just the increase on quantum of money accruable to them, but through

building up of the capacity of their youths to engage or participate in the oil- extraction process in their region.

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