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Nigerian Economic Development, Fiscal Federalism, and Contending Issues: Theoretical and Practical Approaches to Methodology

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Abstract: This essay looks at an investigation into the economies, A significant topic in the policy equation of many has been fiscal federalism, which reflects the degree of fiscal autonomy and responsibility granted to subnational government developing, transitional, and industrialized nations. Scholarly attention has been drawn to Nigeria's federalism because of its intricacy and vibrancy. This is due to the fact that it has created numerous issues that could jeopardize the Nigerian state's corporate existence and continuity. Therefore, the relationship between Nigeria's fiscal federalism and the oil-rich nation's lack of economic development is highlighted in this study. Our main contention is that Nigeria's fiscal federalism has not sparked the growth that the system's designers had hoped for. Therefore, this essay looked at Nigeria's fiscal federalism's development, composition, and practices. In order to do this, the study used secondary sources to collect data and combined descriptive and analytical methodologies. According to the report, Nigeria has not functioned as a a federal constitution, making it a true federation. Taxing authority and fiscal responsibility are still heavily concentrated. Numerous issues, such as the federal government's dominance in income sharing, the lengthy period of military interregnum rule, and an excessive reliance on Federation Account revenue, have hindered Nigeria's practice of fiscal federalism. This study investigated how fiscal federalism and the chosen distribution formula contribute to unhappiness and violent agitation. In order to do this, the study used secondary sources to collect data and combined descriptive and analytical methodologies. Therefore, the study came to the conclusion that in order to promote sound fiscal independence, the federal government should give state governments some of its taxing authority. and rivalry between states.

Keywords: Allocation, Centralism, Decentralization, Nigerian agitation, Political economy

1. Introduction

A careful analysis of the economies of some of the more established federations, such as the US, Canada, and Germany, appears to indicate that federalism and economic growth go hand in hand. Scholars of fiscal federalism appear to agree that economic progress results from the decentralization of spending duties in federal states (Ajiteru, 2022). Given that Nigeria, Mexico, and India—all federations—do not belong to the elite group of the world's richest economies, this article aims to examine the viability of this viewpoint. Taking Nigeria as an example, we contend that several of the lack of a functional federal structure is one of the factors influencing the economic performance of many of the poorer federations. Stated differently, a federal state's political and economic performance is influenced by the way a federal system is run, and vice versa. Because of various features, such as the fact that the federal and federating governments coexist inside a single political system, making them rivals for the federation's limited resources, income sharing in a federal state is more complicated than in a unitary state. Fiscal imbalances arise in federations as a result of constituent entities

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barely having enough money to cover their expenses. However, imbalances must be fixed regardless of how they arise in order for the federation to survive, and This might take the kind of intergovernmental transfers, which could either facilitate or restrict governments' ability to carry out their duties. Abalaka (2022).

According to the reasoning, fiscal federalism in Nigeria aims to maintain national unity, economic growth, and a balanced federation. However, how has the nation's fiscal system fared in this regard? How much may be considered to have been accomplished by Nigeria's fiscal federalism? Thus, the purpose of this article is to examine the nature of Nigeria's fiscal federalism in order to use it as a benchmark to assess the Nigerian Federation's economic success. In modern federal states, fiscal federalism presents particularly difficult obstacles, although it wouldn't be out of the question How to evaluate a federation's performance using fiscal federalism as a benchmark. Therefore, the political and economic justifications for income sharing in Nigeria are examined in the following. Furthermore, emphasis is placed on the revenue allocation rules that have governed the nation's revenue-sharing scheme. The impact of Nigeria's fiscal federalism on the nation's economic progress is the focus of the paper's last section (Sulaiman, 2022).

Federalism leads to fiscal federalism. According to the political theory of federalism, national and subnational governments share governance authority to form what is commonly referred to as a federation (Abalaka, 2022). Federalism is a political theory where the authority to rule is distributed among the federal, state, and municipal administrations, forming what is commonly referred to as a federation (Ajiteru, 2022). "It is a political theory that is divergent in concept, varied in ecology, and dynamic in practice," according to Sulaiman (2022). According to Vincent (2021), the idea of federalism suggests that every level of government is autonomous and coordinated within its designated area of power. It also suggests that each level should have the right taxation authority to take use of its own revenue streams. Each level of government must have sufficient resources to carry out its duties without requesting financial support from the other level, according to fiscal federalism. Ajiteru (2022):

For instance, if state officials discover that the services they have been given are too costly for them to provide, and if they request grants and subsidies from the federal government to help them; they are now under its control rather than coordinating with it. Federalism is actually destroyed by financial subordination, no of how meticulously the legal structures are maintained. Therefore, it follows that the constitution must grant both state and federal agencies the authority to access and manage their own adequate financial resources. Each must be able to levy taxes and borrow money to pay for its own services.

Financial liberty and fiscal decentralization are essential for the survival of any federation. Delegating decision-making authority to lower governmental levels rather than centralizing it is known as fiscal decentralization in the middle. Therefore, each level of government ought to have the autonomy to decide and distribute funds in accordance with its own priorities within its own sphere of influence. Furthermore, the federating units ought to have the autonomy to take independent action on issues that are under their purview (Ewetan, 2021). "Understanding which functions and instruments are best centralized and which are best placed in the sphere of decentralized levels of government" is the focus of fiscal federalism. Sulaiman (2018). A basic normative framework for allocating responsibilities to the various tiers of government and providing suitable financial tools to carry them out is known as fiscal federalism. Ajiteru (2022). Designing financial relationships between the national and subnational levels is made easier by this set of guiding principles or concepts of government, whereas the process of putting these ideas into practice is known as fiscal decentralization (Sharma, 2015). According to Abalaka (2022), fiscal federalism refers to the allocation of public sector resources and operations among the several levels of government. The budgetary relationships between the upper and lower tiers of government are what define fiscal federalism. Three primary theories are used to explain the fiscal relationships between and among the federation's constituents: the theory of fiscal relations, which addresses the roles that each level of government is expected to play in the distribution of funds; the theory of interjurisdictional cooperation, which refers to areas where the federal, state, and local governments share responsibility; and the theory of the multijurisdictional community. Ajiteru (2022). Each jurisdiction (state, region, or zone) in this instance will offer services that will benefit those who live within its borders; therefore, it should only use funding sources that will allow it to absorb the costs. Ajiteru (2022).

2. Literature Review

The fiscal federalism theory

Kenneth Arrow, Richard Musgrave, and Paul Samuelson established the fundamentals of the first fiscal federalism theory. The framework for what came to be recognized as the right role of the state in the economy was established by Samuelson's two seminal publications on the theory of public goods (2014, 2015), Arrows discourse (2020) on the roles of the public and private sectors, and Musgrave's book (2019) on public finance. Later on, the idea was dubbed the "Decentralization Theorem" (Sulaiman, 2018). Three functions for the government sector are identified by this approach. These are addressing income disparity, preserving macroeconomic stability, and fixing other aspects of market failure. While the subnational governments and the central government share responsibility for addressing income disparity, the central government is in charge of maintaining macroeconomic stability and correcting market failure. Ajiteru (2022).

Taxes that better fit the functions assigned are also allocated to the appropriate tier or level of government after the functions have been assigned. Progressive income tax, for instance, is appropriate for the central government's role in macroeconomic stabilization and income redistribution. However, it was decided that local governments should be in charge of property taxes and user fees. Decentralized governments are also required to impose benefits taxes because it is determined that such When it comes to mobile economic units, whether they be individuals or businesses, taxes encourage economic efficiency (Olson, 2017).

The necessity of fiscal equality is the last component of this fundamental notion. This takes the shape of one-time payments made to decentralized administrations by the central government. There are primarily two arguments in favor of equalization. According to the first, which is based on efficiency, equalization is a means of making up for skewed migration patterns. The second is aiding less wealthy areas or jurisdictions. In many federations, equalization is crucial. For instance, Canada's intergovernmental fiscal arrangements include a complex equalization program (Boadway and Hobson, Ajiteru, 2019). It is important to note that current research highlights the significance of relying on one's own income governed similarly to a unitary state. Our experience of inadequate fiscal management and low economic performance, which over time have negatively impeded the real practice of fiscal federalism, can be partially explained by the military administration's imposition of a centralized unitary system on a federal framework. Abalaka (2022).

Before the British government granted Nigeria independence, rounds of constitutional discussions in England served as the foundation for the country's federal system. Constitutions outlined what each level of government was supposed to do. These constitutional provisions were crucial because they made sure that the statutory fiscal functions and the funds to be used for each level of government to carry them out effectively were specified under the constitution and were supposed to be applied sparingly. Regretfully, ad hoc fiscal measures like the stabilization fund, the Petroleum (Special) Trust Fund (PTF), the upfront deduction of external debt obligations, and the dedication of crude petroleum for use in special federal projects have reduced the statutory shares of state and local governments. Overall, this had the consequence of replacing the federal system with an ineffectual unitary state, which meant that the covert shift towards a unitary state under military rule did not promote fiscal federalism (Sulaiman, 2018). The allocation of funds to support the efficient delivery of public goods and services, as well as the statutory functions that each level of government was required to carry out, were circumvented under military governments. The de facto federal superiority over the states and the enormous autonomous increases in revenue accruing to the Federal Military Government led to an arbitrary aggregation of functions on the part of the center that are typically the subject of constitutional debates and agreement, according to the Aboyade Presidential Commission on Revenue Allocation (1977), which noted this trend of significant departure from fiscal federalism. The evolution of this system is demonstrated by executive actions on a variety of issues in addition to legislative measures, including universal primary education, agriculture, higher education, roads, the establishment of ministries of water resources, housing, urban development, environment, and social development youths and sports.

The Aboyade Commission concluded that these policies had a tendency to take away from Nigeria's actual fiscal federalism.

First noted in the 1970s, this pattern has persisted into the 2000s, leading to inflated government budgets and, for many years, total deficits in fiscal operations. As the federal government took on budgetary duties that, according to the federal constitution, should be

carried out by the subordinate levels of government, the magnitude of the budget deficits became unsustainable. The Central Bank's credit was mostly used to cover the deficit gaps, which had an impact on sluggish economic development and high rates of inflation (Abalaka, 2022).

The constant and haphazard formation of new states is another aspect of military administration that has impeded the implementation of true federalism. As a result, the budgetary structure became unduly bloated, and many of the states that were established were not financially feasible because they lacked the resources necessary to make any significant progress. The federal government's hegemony over the distribution of national resources from the Federation Account, often known as the common purse, is another problem. There has always been more for the federal government than the revenue-sharing formula called for. Relatively speaking, the federal government's portion of the common purse decreased from 70.0% in 1960 to 65.0% in 1963, 55.0% in 1980, 50.0% in 1990, and 48.5% in 1993. It stayed at that level until 2002, when it increased to roughly 52.0%. However, in absolute terms, the average federal government share has stayed at between 60 and 65 percent in the majority of the years, according to Sulaiman (2018).

From the start, fiscal federalism brought up a number of important concerns. In Nigeria, the division of duties among federating units has also led to issues. The first was how each level of government would be granted sufficient budgetary authority to fulfill its constitutional obligations, maximize revenue, and maintain fiscal autonomy. There may be a hard choice between having more fiscal authority and less revenue, or having less fiscal authority and more revenue, even though centralizing the administration of a specific tax may violate the idea of states' and local governments' fiscal independence. Value added tax (VAT) was introduced, replacing One example of such a disagreement is the federal government's administration of the states' sales tax. Ajiteru (2022).

Second, there were issues with fairly distributing the centrally gathered funds across all governmental levels. Different fiscal commissions have tried a number of different concepts to address this issue, and as of right now, there are still no completely accepted guidelines for revenue distribution. The issue of revenue sharing between states and local governments has frequently been made worse rather than better by a lack of sufficient data for fair examination. Abalaka (2018).

Third, non-jurisdictional issues like population imbalance, geographical area, resource endowments, and development levels had previously burdened fiscal federalism. As a result, there has been an increasing distance between the needs of each state and local government, as well as the funds they may generate independently. The concepts that were implemented in favor of lesser states, and occasionally at the expense of the richer ones, were influenced by the stark contrast between the very rich and the very poor levels of governance.

Fourth, although the military administration created states and local governments in order to create a balanced federation, the rise and spread of these entities have continued to create new issues for the budgetary relations between the various governments. Despite the fact that one of the main goals of the military government's establishment of states was to weaken regional political authority and minimize ethnic and regional politics, which were already undermining the new federal system, It also saw it as a chance to demonstrate the "supremacy" of the central government's fiscal authority over the states by using its military strength.

Additionally, there has been criticism of the revenue sharing derivation principle's steady fall of weights. The goal of the derivation emphasis was to encourage budgetary restraint among the subnational governments and to ensure that the units maximized the yield from the tax sources that were available. The interest of the states with tiny landmasses is undermined by the landmass and terrain dilemma. Progressives generally believe that the revenue allocation system should not use this landmass criterion. Nigerian fiscal federalism is now beset with numerous issues. Abalaka (2022).

The Politics of Revenue Allocation, Fiscal Commission, and Revenue Mobilization Allocation.

The Federal Government of Nigeria responded by creating the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) in 1999 as a permanent and comprehensive revenue agency. The membership of RMAFC represents the Federal Character Principle, and the commission is empowered to operate in the following ways by enabling laws:

1. Keep an eye on the money coming into and going out of the federation account;
2. Periodically review the principles and formula for revenue allocation to make sure they are in line with evolving circumstances;
3. Provide financial efficiency and revenue-raising strategies to the federal, state, and local governments;
4. Establish the compensation that political office holders should receive; and,
5. Carry out any further duties that the commission may be assigned by the National Assembly's act or the constitution (Shuaibu, 2002). Theoretically, the different levels of government's tax-sharing authority are intended to ensure that the country's income is distributed fairly in accordance with the principles of real fiscal federalism. RMAFC has maintained the idea of fiscal imbalance in Nigeria, according to an analysis of its activities in relation to the politics of revenue allocation in that nation (Sulaiman, 2022).

With this sharing model, which was drafted by the fiscal body in 2011, the federal government received 41.3%, state governments 31%, municipal governments 16%, and special funds 11.7%. But this specific The Supreme Court's ruling on resource control in April 2012 put a stop to the project. By 2018, the National Assembly was presented with a revised revenue-sharing table proposal by the fiscal body. 53.69% had been suggested for the federal government. It is clear that the new idea provides the foundation for Nigeria's fiscal federalism, which would continue to favor the federal government. The new revenue formula plan will inevitably be contentious and testy. The calculation is therefore biased in favor of the federal government. The Federal Government spends money anyway since it has no business keeping more than 35% of the revenue because it is idle. Sulaiman (2022).

The miry clay permeates federal politics of violence and amassing of weapons in order to spread the word of an election triumph. The amount of thugs and violent weapons undermines election victory, not the number of voters. Political jobbers who lack an understanding of politics and development find the federal government appealing since it serves as a distribution point. The plundering of the national purse piques the curiosity of politicians, who then engage in politics of decline. Given its wealth, it is not surprising that Nigeria remains one of the world's poorest nations, with little or no possibilities for women's and youths' empowerment and capacity building. Ajiteru (2022).

Reasons For Nigerian Revenue Allocation

The rivalry between those of the central government and the constituent units for the limited resources of a federation Nevertheless, the central government must address any fiscal imbalance in any constituent unit if the federation's overall economic performance is to be maximized and political stability is to be preserved, as an imbalance in one unit may spread to other units. Some academics, mostly economists, minimize the political aspects of federal intergovernmental transfers while emphasizing economic goals as the sole justification. It is undeniable that economic factors play a major role in the establishment of certain federations, but it is important to remember that federations are political entities. Therefore, it may be deceptive to examine a federation's fiscal system without taking into account its politics. Consequently, the Since financial agreements are an essential component of a federation's political functioning, research on intergovernmental relations in a federal system should not overlook the social and political environments in which financial contacts occur (Watts, 2003: 2). The point being made here is that in order to completely comprehend the nature of a federation's fiscal system, it is imperative that one does not overlook the political and economic factors that exist inside it. Furthermore, the successful functioning of a federal system depends on the dynamic interplay between these variables. Abalaka (2022).

The central government of Nigeria is mandated by law to provide state governments with monthly grants. In particular, the federal government gives states two types of allocations: statutory and non-statutory. Concerning According to Section 162(3) of the 1999 Nigerian Constitution, the Federal Government must annually provide the states and local governments with unconditional funds so they can fulfill their constitutional obligations. In contrast to unconditional grants, which are typically lump sum transfers with no spending restrictions and can be used however the recipient government, typically the federating government, wishes, conditional grants are supplemental transfers to federating governments that are intended for specific purposes and must be used as instructed by the granting government, typically the central government (Ajiteru, 2022). In Nigeria, non-statutory funds are uncommon and are typically awarded to states that are experiencing an emergency, such as a flood disaster (Sulaiman, 2022).

In a perfect federal financial system, the use of unconditional grants allows money to flow from relatively wealthy areas to less wealthy ones, creating a sense of equality among the constituent units. These transfers are typically called "equalization" transfers because their main purpose is to correct a federating government's fiscal deficit (Ajiteru, 2019). Although rich federating units have contributed more to the national coffers, they still receive the same per-capita grant as poor federating units. In Nigeria, fiscal transfers to state governments are unconditional and guaranteed by the constitution, whereas grants to constituent governments in many other federations are intended to supplement independently generated revenue and to help financially weaker units (Suberu, 2021). In Nigeria, grants are the main source of funding for state governments; consequently, states have become increasingly dependent on the center to meet their financial requirements. The core of the nation's intergovernmental financial ties is this reliance, according to Ajiteru (2022).

Nigeria's Fiscal Federalism: Its Character and Crisis

Because of the dynamics of federalism, countries that have federal systems of government must regularly assess and develop fair and practical taxation and income allocation policies. From Nigeria's point of view, numerous efforts were undertaken to find a formula for the equitable distribution of its national economic resources among the federation's constituent entities. Despite all of these initiatives, there are still difficult difficulties that are seriously undermining Nigerian federalism. Over-reliance on oil money, disputes over the revenue-sharing formula, Nigeria's fiscal relations' inclination toward centralization, and the push for resource control are a few of these pressing challenges, according to Abalaka (2022).

In May 1956, Shell-BP made the first commercial oil discovery in Nigeria near Olobiri, Bayelsa State. The Nigerian federation's political economy underwent a sea change when oil multinational corporations began oil prospecting two years later. Nigeria is now the seventh-largest oil exporter in the world, and oil exploration has made it the backbone of the country's economy. Oil became the primary concern in fiscal federalism as a result of this development. Over the past nine years, Oil had brought in more than \$250 billion for Nigeria (Sagay, 2018). However, it is ironic that Nigeria's economy has suffered as a result of oil exploration and the high profits it generates. Therefore, it classifies the position as a "resource curse." As a result, the previously thriving agricultural sector as well as other profitable industries including mining, industry, and human capital development were undermined. The competitive spirit that would have fueled economic growth in these underutilized industries in Nigeria throughout the years was inevitably de-energized. Furthermore, an excessive reliance on oil money had a detrimental effect and presented significant obstacles to the nation's fiscal federalism. Over time, it has resulted in the changing of a leech disease throughout the federation's constituent units. It inevitably caused the states to become reliant on the Federation Account handouts. The authority of the federating entities has been undermined by the fiscal character of the majority of the states, which renders them an economic extension of the central government. In a sense, this created a master-servant relationship between the divisions and the federal government. The process of distributing national resources and revenues among the federation's levels of government is known as revenue allocation (Ajiteru, 2022).

It is well known that the fundamental ideas of autonomy, the lack of hierarchical authority, and the absence of centralism that permeate the federalist concept are what motivate it. relationships between Nigeria's federal government and its numerous component entities. The agitation for resource control that has taken on a criminal dimension is also unsettling. Numerous incidents of kidnapping, vandalism, despair, and widespread violence are reported. In Nigeria, the Federal Government often makes spending decisions or chooses the ways to spend money on its own. The excessively crude account, which several states are contesting as unlawful, is one example. "The states are also demanding a refund of approximately 546.37 billion naira and the direct payment of excess crude earnings into the Federation Account." Yusuf (2018) 1. It is safer to believe that the Nigerian nation-state's incapacity to tolerate its federalism and its low political maturity are the causes of the unbalanced federal-state fiscal relations. to change and grow without excessive control. Nigerian federalism is currently beset with numerous issues. Among these are the arrangement's external imposition, the seeming lack of political will, and a lack of dedication to the country's purpose (Abalaka, 2022).

Options for Policies

Readjusting the federation's tax income sharing authority fairly among its constituent units—which currently favors the federal government—is the key to finding long-term solutions to the issues facing the Nigerian federation. The Nigerian economy must also be drastically diversified to include additional profitable and productive industries including mining, agriculture, industry, and human development (Sulaiman, 2022).

Constitutional review is desperately needed, particularly in light of federalism. As it is, the federal government has too many duties and unrestricted authority on the exclusive legislative list. It is necessary to alter the constitution in order to strip the federal government of some of its powers, which are becoming more and more foreign in the context of contemporary federal operations. Additionally, because states rely largely on federal funding, the current income sharing model is found to promote indolence and laziness. As a result, most states—possibly with the exception of Lagos—are parasitic in nature and ravenously consume Federation Account funds. States now lack vision, have few ambitions, and are development-averse. It is advised that the derivation principle be applied exactly as is in order to rectify this problem. possible to motivate the states to put in more effort in order to maximize their Federation Account contributions. The "to each according to its contribution" premise makes the derivation formula good. States will create and construct an internal revenue mechanism that can generate income and lessen the amount of friction brought on by ongoing fiscal relations. Ajiteru (2022).

Nigerian Intergovernmental Fiscal Transfers

According to Oates (2017), states—federal or unitary—perform three primary tasks: distribution, allocation, and stabilization. Therefore, how these responsibilities are distributed among the various levels of government within a federation is the political focus of fiscal federalism. As previously mentioned, a true fiscal federal system must guarantee that the allocation of funds between the federal government and its federating governments aligns with the allocation of constitutional duties. The "fiscal independence" of each branch of government to raise and spend money in a way that maintains its autonomy is one of the fundamental ideas that typically dictate revenue sharing in federal systems (Phillips, 2021). Another principle is "fiscal efficiency," which suggests that revenue allocation must be done efficiently. Therefore, the governments that are most likely to administer taxes effectively should be given such authorities (Sulaiman, 2022). The "adequacy and stability" of the resources accessible to all federation governments must also be acknowledged by a federal budgetary system. The revenue-sharing approach must guarantee that "available resources are elastic enough to meet the expanding needs of the governments," according to this premise, and that their sources are stable, especially for the governments of the federation (Phillips, 2021: 389).

It should be noted, nevertheless, that these ideas are incompatible with one another. For example, true fiscal independence is unattainable since the fiscal efficiency principle permits the central government to control significant levies like import and export tariffs. Additionally, the federal government has budgetary supremacy over other regions because to the "adequacy and stability" principle, which enables it to raise more money than its member governments (Phillips, 2021: 390). Perhaps because of these innate inconsistencies, federal nations—like Nigeria—adopt policies that are appropriate for their unique political, economic, and social contexts. Abalaka (2022).

Additionally, the equality principle is predicated on the idea that each and every one of the constituent parts that comprise a Regardless of their contribution to the national revenue, all federations must be treated equally by getting equal percentages of federally collected revenues since they are equal in terms of population and land mass (Ajiteru, 2022). This is predicated on the idea that each state has equal financial responsibilities. Once more, the Aboyade Fiscal Commission criticized the application of this principle in its report, claiming that states differ in their access to other internal financial resources and are not economically equal with regard to their budgetary or developmental responsibilities (Nigeria, 2019). Although states may be equal in theory, their economic resources differ in reality. The principle's incorporation into Nigeria's revenue-sharing scheme is yet another glaring flaw. has caused ethno-regional groupings to vehemently demand the establishment of more states in the nation (Abalaka, 2022).

Lastly, each state may receive an annual intergovernmental grant based on population for certain goals that must serve the interests of the nation as a whole, thanks to the principle of national interest. To put it simply, the idea highlights that in order for the Federation as a whole to achieve balanced development, states must be provided with sufficient resources.

Therefore, it aims to improve the standard of living for individuals in less developed states above the minimal national level established by the nation's leaders (Elaigwu, 2017: 207). While this is a noble idea, as was previously mentioned, dividing up funding according to population makes it easier for census fraud to occur. since the distribution of national resources among the Federation's component parts is determined by population estimates (Sulaiman, 2022).

Since implementing a federal system, Nigeria's fiscal federalism has undoubtedly seen some adjustments, but the Federal Government continues to receive the majority of centrally generated money. For instance, under Section 162(1–5) of the 1999 Constitution, the Federal Government must deposit all centrally collected revenue into the Federation Account, a general distribution pool that will be distributed both horizontally and vertically under the Fourth Republic. This account's contents are distributed vertically to the federal, state, local, and centrally controlled special governments in the following proportions: 48.50%, 24%, 20%, and 7.50%. according to Abalaka (2022), a practice that has guaranteed federal supremacy in fiscal concerns.

Section 162(2) of the Constitution states explicitly that the considerations of "population, equality of States, internal revenue generation, land mass, terrain as well as population density" will be the main principles for the purposes of horizontal allocation in Nigeria. At least 13% of natural resource earnings must be distributed using the derivation principle, according to the same section. Therefore, in addition to the statutory allotment from the center, the oil-producing states implicitly have a right to 13% of Nigeria's oil revenue. As a result, the oil-producing states' portion of the nation's oil-generated revenue has grown dramatically in terms of direct revenue. As seen in Figure 1, the Beginning in 1970, when it was set at 25%, the derivation principle was gradually reduced, reaching 3% as military rule came to an end. However, the percentage of Nigeria's Federation Account that went to the oil-producing states under the principle had risen to 13% by 1999, when the nation resumed democratic governance.

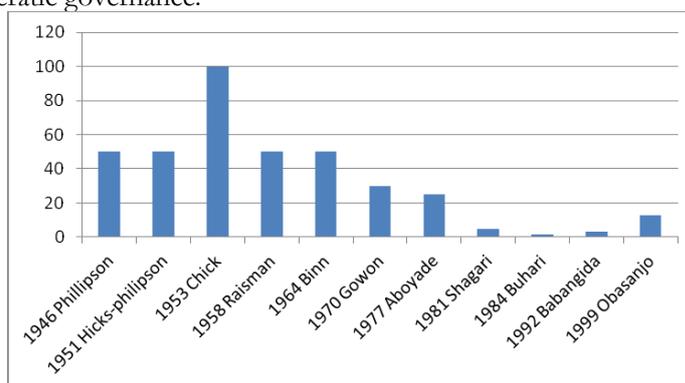


Figure 1: Derivation Principle, 1946–1999
Babalola (2014), p. 121

When the elites in the oil-producing states insist on this principle on the grounds of equity, while those in other parts of the country argue in favor of such principles as equality of states and population, the 1999 constitutional provision on derivation still caused controversy and took on a geopolitical dimension (Babalola, 2014: 121). The latter group has consistently claimed that no area or ethnic group should have the sole right to Nigerian oil since it is a natural resource that belongs to all Nigerians. Since mining falls under the Federation's exclusive legislative list, no state is permitted to control mineral resources under the current federal setup. Resource control7 proponents, however, have denied this assertion, arguing that the central government was only carrying out its social duty to the residents of the oil-producing region whose land has been destroyed as a result of decades of oil exploration by adhering to the principle of derivation (Ajiteru, 2022).

The Federal Government had to ask Nigeria's Supreme Court to rule that the derivation principle does not apply in order to settle the disputes surrounding the onshore/offshore dichotomy. applicable to offshore oil, as well as to determine the littoral governments' seaward borders, among other factors. The Supreme Court upheld the Federal Government's sole claim to offshore oil money in its historic ruling in April 2002, so exempting offshore oil revenue from the derivation rule. The Federal Government's stance on the onshore/offshore dichotomy was endorsed by the nation's highest court. As anticipated, the ruling was interpreted by the Niger Delta's elite and those who supported them as a calculated move by

the federal government to deny the littoral states their right and maintain federal fiscal dominance.

The oil resources located within Nigeria's borders are undeniable. belong to every Nigerian, and it is against the constitution for any state, region, or ethnic group to claim them exclusively. Nonetheless, the chance to engage in the same economy should be extended to those who suffer the most from the oil economy. Individuals who have lost their livelihoods should receive fair compensation, and the area should have sufficient social infrastructure, but these measures should be taken without endangering the nation's unity.

3. Discussion

Nigeria's quest for economic development and fiscal federalism

The linkage between fiscal federalism and economic progress can best be discovered in the country's larger political economy. The national political economy has a role in fiscal federalism, as it emphasizes a federation's essential characteristics (Burgess, 2016: 148). Therefore, political economy must be given special consideration in a comprehensive analysis of a federation's fiscal system. The state's defective domestic political economy, which promotes an excessive reliance on oil, may be a key factor in explaining Nigeria's poor economic performance in particular. A post-colonial Nigerian economy that relied on agricultural products to generate foreign exchange earnings was altered by the discovery of oil, and by 1973, the country's economy had changed to one that was primarily dependent on oil rents for its survival. It is unnecessary to go into great detail on Nigeria's agricultural neglect, as it has been widely reported (see Bangura et al., 2016: 177; Khan, 2014:). The fact that agricultural products were no longer economical due to the extraordinary influx of oil rents was a significant factor in the drop in agricultural output. Another factor is that, due to the better returns than in manufacturing or agriculture, the expanding oil industry saw a rush in both labor and capital. Nigeria, a food exporter prior to independence, consequently turned into a food importer (Abalaka, 2022).

The economy of the Nigerian state is currently centered on oil, and as a result, all other sectors and, by extension, all levels of government, rely on it. According to a wealth of data, nations with abundant natural resources—particularly those that rely significantly on oil revenues—perform worse politically and economically than those without such resources. This issue in Nigeria is further exacerbated by the federal structure of the nation, which is rife with centrifugal tendencies such as economic inequality and ethnic diversity among the federating units. Nigeria is one of the world's oil-rich nations, yet this paradox has prevented the country's oil wealth from generating the necessary stimulation for political stability or progress. Ajiteru (2022).

The period of military rule in Nigeria, which coincided with the 1973 oil boom, also made the federal government more economically central, which made the states more dependent on the center. The central government became overly strong and in control of the states during the military era because it was heavily involved in the authoritative distribution of resources. Significant political and economic developments occurred during the military era, which had an impact on Nigeria's fiscal federalism. The oil boom was the primary economic development during this time, while the three-year civil war, the 1967 creation of twelve states from the previous four Regions, and the subsequent division of the nation into what is now a federation of thirty-six states were some of the political developments. Together, these changes led to the emergence of fiscal centralization. One legacy of military rule that is difficult to ignore in the study of Nigerian federalism is the over-centralization of the nation's federal system (Abalaka, 2022).

It is impossible to overstate how important oil is to Nigeria's oil-centric political economy in terms of revenue distribution, as the emergence created a highly centralized federal government by giving rise to a politically and economically powerful federal center as a result of oil rents. The central government remains centralized as long as oil rents continue to contribute to the national revenue pot. As a result, the constituent entities remain financially dependent on and subservient to the federal government. Nigeria's federal system, which was first known as regional federalism, gave the federating units a great deal of political and economic autonomy (Nolte, 2017). However, Nigerian federalism had evolved dramatically from its previous form by 1999, when the nation returned to civilian administration following years of military dictatorship, and political and economic powers were now primarily focused in the middle. Undoubtedly, a federal philosophy that emphasizes

the independence of all levels of government is negated by the federal center's dominance. This was more concisely stated by K. C. Wheare (2018: 93), who contended that:

Another facet of Nigeria's political economy that cannot be disregarded while examining the country's economic growth is corruption. There is no denying that corruption is a serious danger to Nigeria's economic growth. For example, in 1983, Professor Chinua Achebe said that corruption frequently ate up as much as 60% of Nigeria's income (Achebe, 2018: 40), which was sufficient to "paralyze Nigeria in every sinew and every limb" (ibid.: 43). No single society is exempt from corruption, but is common in Nigeria and has nearly taken on the characteristics of a subculture. Nigeria is ranked among the world's most corrupt nations, according to Transparency International's (TI) annual surveys. Nigeria's post-military standing on the TI's Corruption Perceptions Index, for example, is displayed in Table 1.

Table 1: Nigeria's Corruption Perceptions Index (CPI), 2004–2020

Year	Number of Countries Surveyed	Country Rank	CPI Score (Out of 10) ⁸
2004	85	81	1.9
2005	99	98	1.6
2006	90	90	1.2
2007	91	90	1.0
2008	102	101	1.6
2009	133	132	1.4
2010	145	144	1.6
2011	158	152	1.9
2012	163	142	2.2
2013	179	147	2.2
2014	180	121	2.7
2015	180	130	2.5
2016	178	134	2.4
2017	183	143	2.4
2018	176	139	2.7
2019	177	144	2.5
2020	175	136	2.7

Source: Adapted from the Transparency International's Corruption Perceptions Index

It is undeniable that corruption played a major role in Nigeria's political economy before to the discovery of oil, but the enormous influx of oil profits since the 1973 oil boom has significantly increased the amount of corruption in the rentier state. Prior to oil, state office holders primarily made their wealth through the regional Marketing Boards. In order to split the profits amassed by the Boards, the Nigerian regional bourgeoisie conspired with international investors during that time. In a similar vein, elites in control of state authority in Nigeria exploit their positions as a means of enriching themselves as oil rent pours into the state's coffers. To put this more simply, Welch (2015: 636) noted that "Billions of dollars have been given to Nigeria." from oil, the most of which appears to have vanished into private hands with little to no benefit to the majority of Nigerians. It is no exaggeration to say that corruption now takes on "elephantine proportions" at all levels of government, with political elites sharing the benefits of office with impunity. This is a return to the lack of public scrutiny that defined public spending in the pre-Fourth Republic era (Mustapha, 2019: 76). The "military-era culture of governance centred on arbitrariness, lack of accountability, corruption, and disregard for public welfare has continued in most states and local governments, especially in Niger Delta," according to Human Rights Watch (2017: 14, cited in Mustapha,

2019: 78). This supports the idea that Those with political influence benefit greatly from rentier economies, while those without it face a lack of opportunity. In Nigeria, having access to the state is equivalent to having access to its resources, and having access to resources is equivalent to having economic advancement (Sulaiman, 2022).

It is especially instructive to observe that the enormous influx of oil rents into the coffers of those Niger Delta states, particularly in the post-military era, as a result of the derivation principle's implementation, did not improve the socioeconomic well-being of the populace but rather exacerbated corruption. Insufficient oversight of public officials, especially governors, led to the majority of state funds being embezzled. through contractor kickbacks, while social services including health and education received glaringly inadequate funding. There is ample evidence of the widespread corruption that occurred in this area in the years after military rule ended (see Babalola, 2014). Undoubtedly, corruption contributes to the difficulty of Nigerian federalism, and as a result, it is reasonable to argue that corruption is somewhat to blame for the inability of Nigerian fiscal federalism to spur economic expansion. Because elites divert public funds that could have been utilized to produce public goods to private use, corruption typically has a detrimental effect on how public resources are managed. Consequently, corruption is a leak from the economy and hinders economic progress by raising administrative costs and making governance excessively costly. In Nigeria, where patronage politics are common, this has been the case. The aforementioned suggests that corruption is nearly always present when oil rents are available, supporting the claim that corrupt activities are a result of a nation's political and economic circumstances (Ajiteru, 2022).

4. Conclusion

The study examined the development of fiscal federalism, developed a theoretical framework for it, and went into great detail about the characteristics and difficulties of Nigeria's fiscal relationships. The study came to the conclusion that taxing authority and fiscal responsibility are remained heavily concentrated. "In the sharing formula, the Federal Government always receives a larger amount and has less of an impact on the people Abalaka (2022). The federal character of our nation must be practically reflected in any trustworthy revenue allocation and use system. Nigeria's socioeconomic development has suffered as a result of the unbalanced fiscal system that favors the federal government at the expense of state and local governments' financial operations. The grassroots level, where the majority of people reside and development seems to be almost nonexistent, should receive more attention. As was mentioned, if a federal system is to survive, it must be able to attain relative economic equilibrium among its constituent entities and, consequently, a balanced federation. A balanced federal system is necessary because, according to some, "poverty wherever in a federation is a barrier to global prosperity, according to Sulaiman (2018). However, it is convenient to assume that if the goal of revenue allocation in Nigeria is to create a balanced federation, this goal is unlikely to be accomplished because the prevailing revenue sharing principle—that is, derivation—is incompatible with interregional equity and national unity because it has consistently favored some constituent units over others. Since the most favored states have gotten richer than the least favored, it has really led to an uneven development in the nation. The regional fiscal gap has widened as a result of the oil-producing states being richer and the non-oil-producing governments becoming poorer. Nigeria's fiscal federalism has been hampered by several causes. Sulaiman (2022).

5. Policy Implications and Recommendations

According to Ajiteru (2022), they include the federal government's hegemony over the Federation Account income sharing, the centralist fiscal relations system, the crucial problem of an over reliance on oil revenue, disagreements over the sharing principle, and strained federal-state relations.

"Urgent action is required to address the unsolvable issues brought on by Nigeria's fiscal federalism, which is generally unacceptable and constantly contradictory." Sulaiman (2018). Consequently, the following recommendations are made.

- It is highly advised that the federal government reverse its long-standing fiscal domination in order to restore a real federal system. Raising the amount of taxing assignment of subnational governments is the way to address the current discrepancy.

- A formula that works well between the center and different levels of the government is advised. Additionally, this methodology ought to meet the overarching goals of balanced national development and interregional equity. In order to boost their fiscal capability and provide them the ability to play a significant role in nation-building, the federal government should reassess the current vertical revenue allocation mechanism and increase the percentage given to subordinate governments in Nigeria.
- Additionally, Nigeria's economy must be drastically diversified to include other profitable and productive areas including mining, industry, human development, and agriculture.
- In order to resolve the current fiscal mismatch at the subnational levels of government, it is highly advised that Nigeria's fiscal federalism be immediately reformed to address the constitutional question of fiscal powers among the three tiers of government.
- The necessity of It is advised that subnational governments diversify and fortify their revenue bases. In order to do this, ineffective local taxes should be removed, unrealized tax potential should be found, and local tax administration should be enhanced.
- It is highly advised that fiscal restraint be encouraged at all governmental levels in order to maintain macroeconomic stability. In accordance with the goal of macroeconomic stability to guarantee sustained national development, the policy should impose mandatory effective ceilings on government deficits at all levels.

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