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Fiscal Federalism in Nigeria: Exploring Challenges and Fundamentals.

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***Abstract**: Federalism is a framework of compromise designed to decentralize power over resources for purpose of governance and development. In Nigeria federation, this ideal is enormously challenged. This paper therefore assesses critically the history and dynamics of intergovernmental fiscalrelation, illuminating issues and challenges emanating from this peculiar process of power relationships. The design of this discourse is Explanatory research design which adopted secondary source of data collection and content-analyze events and realities of the functionality of fiscal federalism in Nigeria. It furtherrevealed crises bedeviling inter-governmental fiscal relations and efforts made to stem the tide amid obvious constraining conditions. In credence to the findings of the discourse, plausible recommendations were proffered in ensuring stable and efficient fiscal federalism in response to the plights and expectations of national development.*

Keywords: Federalism, Intergovernmental Relation and Fiscal Federalism**.**

1. Introduction

The choice of whether a country becomes Unitary, Confederation or a Federation isa political decision. This political decision once made have implications for political governance, fiscal management and economic development(Okunronmu, 1996) cited in Salami (2011, p.28).To this extent, the challenges and expectations of national development is a function of institutional mechanism and principles entrenched in the process of governance in response to the fundamental will of the state.

Federalism is a decentralized democracy structured in jurisdictional powers and responsibilities encouraging relations and interactions between governance structures within the spheres of independence. Nigeria as a developing economy has semblance of federalism amid constraining challenges which ensured relations between the levels of authorities over resources and wealth vital to governance and development.

This peculiar relation otherwise known as intergovernmental fiscal relation evinces the theme and scope of this discourse. For indepth and comprehensive analysis, the discourse is streamlined into four sections which begins with introduction, conceptual analysis on federalism, intergovernmental relation, fiscal federalism, and exposition onthe functionality of fiscal intergovernmental relation in Nigeria illuminating foundation, dynamics and challenges. The discourse concludes and makes plausible recommendations to ensure stable and functional fiscal federalism in response to the challenges and expectations of national development.

2. Conceptual Discourse

Federalism

Federalism as a concept, theory and practice is depleted with seemingly myriad of definitions, perspectives and analysis as seen in the literature of scholars and practitioners. The plethora of these conceptualizations stem from the decades and years of empirical observation, and studies of functioning federations across states and continents of the globe. Notably, in the literature of federalism, the conception of K.C. Wheare pioneered modern intellectual analysis of what federalism and federation represents. Wheare (1974) cited in Ifesinachi (2006) viewed federalism as, ‘‘a method of dividing power so that general and regional governments are each within a sphere co-ordinate and independent”.

Furthermore, federalism is a constitutional arrangement whereby power is divided between nation and sub-national governments, each of which enforces its own laws directly on its citizens and neither can after the arrangement without the consent of the other (Dye, 1994, p.104)

In other words, the existence of this peculiar institutional and jurisdictional arrangement in a form or system of government is otherwise known as a federal system of government.

Accordingly, Johari (1982, p.280) embellished,

> Federal system of government is a system of government where powers are divided between government for the whole country and government for the parts of country in such way that each government within its sphere. The government for the whole country has its own areas

> of powers and exercised its own authority and this letter exercise their powers without being controlled by the central government"

From this indication, federalism is characterized with:

(i) institutional dispersion of power and authority between the levels of government.

(ii) autonomy and jurisdiction of specified powers and responsibilities.

These reflective attributes stemmed from federation. Thus, the word "federation" is used for a federal state which connotes the state which has internal political structure based on the division of power between the commonality of the state on the one (upper) level and the particularity and uniformity of the individual units on the other (lower) level (Ekwonna, 2012, p.2). More succinctly, Appodoari (1974) indicated that a federal state is one in which there is a central authority that represents the whole and act on behalf of the whole in external affairs and in such internal affairs are held to be of common interest, and in which there are also provincial or state authorities with powers of legislations and administration within the sphere allowed to them by the constitution. Federalism, federal system and federation synonymously implied power decentralization, institutional autonomy and jurisdiction of responsibilities. Furthermore, Onah (2006) highlighted the reasons for the adoption of federalism to secession;

(1) States can join together in a federation to jointly become powerful enough to deter or award off external aggression and or to prevent aggression or was among themselves.

(2) Federation is adopted to promote economic prosperity by removing barriers to trade among the federating units and through economies of state.

(3) Federal arrangement is adopted on the premise that it protects individual or minorities human rights by constraining state authorities and entrusting the center with the authority to intervene in sub-units.

(4) Federal arrangement is adopted on the assumption that it can facilitate agreement, coordination and control over "spill-over" effects and externalities by transferring some powers to a common body.

(5) A federal arrangement is adopted with the intention that it will improve the political influence of formally sovereign governments of the federating units or states. This is achieved through better coordination and greater exercise of political power in relationships among the sub-units, especially the small ones that are now enabled to influence decisions rather being a mere policy-maker.

(6) Federal political order is adopted on the claim that it may promote cooperation, justice, or other values among or within the sub-units as well as among or within their constituent units. For instance by monitoring, legislating, enforcing or funding agreement, human rights, immunity from interference on development.

Onah's above assumptions underline the fundamentals that have led to emergence of most federations across the globe. Thus, the fundamentals that reflects in the essence of defense, economic prosperity, enhanced governance and safeguarding civil liberty and privileges.

However, Nigeria as a multi- ethnic federal polity has its peculiarity as regarding the adoption of devolutional power structure of governance otherwise known as federalism or federal system. In this sense, Madubuegwu (2017) argued that it is germane to note that Nigeria's federalism, though largely influenced by imperial motives, is justified by the following factors;

(1) The heterogeneous social character and background of the Nigeria colony. Nigeria is a conglomerate of ethnic nationalities with diverse history, culture, language, sentiment and territory.

(2) The intense clamour for regional autonomy, power and relevance. Arguably, it is the views of the regional elite that the regions are the centripetal forces of political cohesion in Nigeria's fragile integration.

(3) The need to decentralize, specify and limit powers and roles between the central government and regional units. This was because of the crises of quasi-federalism introduced by the Macpherson Constitution which was a serious threat to the country's political unity.

(4) Federalism was adopted as a centripetal strategy to militate the effects of centrifugal forces of ethnic chauvinism and secession.

(5) To set the pace for regional self-government and efficient utilization of its resources to accelerate socio-economic development and welfare of the Nigeria people.

To this end, the unity, security and development of any federation depends essentially on the extent of understanding and cooperation among the federating tiers in what is described as "the context of inter-governmental relation".

Inter-governmental Relation

Basically, intergovernmental relation defines the nature and trends of power relationship between tiers of government over resources and responsibilities. Hence, the concept of "intergovernmental relation" like other terms in social science literature is eclectic and elicits several definitions and perspectives. Assertively, Pritchard (1972) stressed that in virtually every major public issues, the elements of power, money and responsibility are on the bargaining table.Inter-governmental relation is negotiating in dead earnest for power, money and problem solving responsibilities.

It is therefore a process that emanate from the need for politics of bargaining and cooperation in situation of competition of interests.

In a different sense, inter-governmental relation is defined as inter-governmental transaction (IGT). That is, transactional relationship that exist between or among jurisdictional levels of government in a state (Awofeso, 2003, p.145). Beyond, the transactional perspective, Ogunna (1996) viewed inter-governmental relation as a complex pattern of interaction, cooperation and inter-dependence between two or more levels of government. Inter-governmental relation is therefore a formal relation and transaction between levels of government for socio-economic and political development.

Invariably, inter-governmental relation refers to interaction that exist among the various levels of government within a state associated with a federal system (Ugwu, 1998, p.80). However, Ugwu's definition obviously elicit a question, "does inter-governmental relation exclusively peculiar or limited to a federation''. In this vein, Awofeso again (2003, p.148) argued that,

> Inter-governmental relation is often misconceived as being synonymous with federation. That it, IGR can be meaningfully discussed in the context of a federal arrangement. This misconception no doubt has its root in the conventional perception of federalism which emphasized legal jurisdiction and functional areas of levels of government. However, more increasingly views of scholars in the recent time unanimously concede to the possibility of inter-governmental relations in federal and unitary states.

Though the structure and process of interaction between the levels of government in federal and unitary states differ remarkably. This disparity is seen in the prevailing system of jurisdictional powers as seen in power coordination operational in federal state and power-subordination in the unitary state. In this vein, Adedire (2014) provided a broad classification of inter-governmental relation obvious in;

(i) relation that occurs in a federal system.
(ii) relation that also occur in a unitary state.
(iii) relation that occur at the international level.

Ugwu (1998) explicitly highlighted the fundamental issues that often feature prominently in inter-governmental relation between the levels of government in a federation;

(a) distribution of powers (jurisdiction) among the various levels of government;
(b) inter-governmental fiscal relations and;
(c) administrative institutions/mechanism for managing inter-governmental relations between the federal government and other levels of government.

Olugbemi(2009) went further to establish nine-pattern of inter-governmental relation as seen in federal state.

(i) federal – state
(ii) federal – local
(iii) federal – civil groups
(iv) state – state
(v) state – local
(vi) state – civil groups
(vii) local – local
(viii) local – civil groups
(ix) Inter – civil groups

Basically, what propels the need for power-coordination and patterned relations between authorities with institutional sphere of responsibilities is certainly premised on the myriad of expedient factors. In illustrative sense, the tiers of government interact and transact to explore the benefits of collective ideas and efforts in sustaining the values of national integration and security, and accelerate rapid socio-economic welfare and growth imperative for the survival, advancement and continuity of a nation-state.

Subsequently, Ogbuishi (2007) established the reasons for inter-governmental relation.

(1) To promote peace, and harmony among the three levels of government.
(2) To enhance the emergence of cooperation rather than competition in federation.
(3) To ensure effective and efficient utilization of available human and materials resources among the various levels of government.
(4) To accelerate the achievement of self-reliance economy.
(5) To minimize inter-governmental conflict among the various levels of government.
(6) To solve problems of rural and urban poverty, ignorance and suffering of the people.
(7) To foster greater national integration via the activities of the levels of government.

Notably, the economic relation amid other forms of inter-governmental relation is uniquely significant to the conditions of unity and development of federations.

(iii) Fiscal Federalism and Inter-government fiscal relation

Finance is very critical to the realization of priorities of governance in deference to the plights and expectations of the state. In other words, issues and arrangement revolving around its generation, allocation and expenditure remain topical in every federation. This is because every federating tier grapples with the challenges of limited resources to respond more meaningfully to the myriad and rising anxieties of the people.

Acknowledging the criticality of finance in federations, Wheare (1963) embellished;

> If state authorities, for example, find that services that allotted to them are too expensive for them to perform and if they call upon the federal authority for grants and subsidies to assist them, they 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 state and federal authorities in a federation must be given the power in the constitution for each to have access and to control its own sufficient financial resources.

Hence, institutional financial autonomy and control between the levels of government prevails when powers and privileges over finance and resources are defined and specified in framework and process that underscores the significance of fiscal federalism.

In explicit sense, Ekpo (1999) conceptualized fiscal federalism as the allocation of tax power and expenditure, responsibilities among the various tiers of government while fiscal decentralization takes place when the sub-national governments are given power to raise some taxes and carry out spending activities within some specified legal criteria. This involves the allocation of centrally-generated revenue to low tiers of government through some revenue sharing formula.

Again, fiscal federalism is financial relationship that exist between and among the units of government in a federal system. It define the statutory structure within which government function such as allocation of resources, distribution of income and stabilization are carried out in a multi-level government structure (national, regional, state or province and council or district).The sub-national governments while independent in local affairs, pool their common resources together for the provision of national public goods and improved economic welfare within their jurisdiction. Thus, fiscal federalism is concerned with revenue generation and allocation between the various levels of government (Tayzi, 1999; Alade 1999; Taiwo, 1999 and Tella, 1999).

Beyond the economic indicators, the fundamental purpose of fiscal federalism lies in the capacity of every tier of government to assume and discharge its responsibilities which though depends on the balance between decentralization of revenues and decentralization of government spending, the scale of transfers of revenue between levels of government, the condition attached to those transfers, the difference in the respective capacity of the states and local government to provide comparable public services at comparable levels of taxation and tax collection arrangement within the basic objectives. (Ubi, 2017, Aigbepue and Ainabor, 2011).

Emphatically, the fiscal federalism is propelled by the need to;

(1) To strengthen the autonomy and capacity of the coordinating tiers of government over resources, finances and expenditure.
(2) To enhance the capacity of the sub-national authorities to respond to the myriad expectations of governance.
(3) To encourage partnership and cooperation in ensuring rapid socio-economic growth and development of the federation.
(4) To avoid and mitigate situation of interference and conflict that often stem from the process of allocation or distribution of resources or finance.

Furthermore, the socio-economic objectives of fiscal federalism is also premised under the following:

(1) Ensure that micro-economic management policies of the central government are not undermined or compromised.
(2) Give expenditure discretion to sub-national government in appropriate areas in order to increase the efficiency of public spending and improving accountability of sub-national official to their constituents in the provision of sub-national services.
(3) Incorporate inter-governmental transfers that are administratively simple, transparent and based on objective, stable and non-negotiable citizens.
(4) Minimize administrative cost and provide equalization payments to offset differences in fiscal capacity among state and local government to offer sufficient and satisfactory services.
(5) Be consistent with national agreed income distribution goal.
(6) Support the emergence of a governmental role that is consistent with market-oriented reform (Litrach and Wallich, 1993; Yumusa, 2003) cited in Ubi and Inyang (2017, p.5).

Certainly, these lofty objectives and targets are conventionally pursued in deference to established precedents. In this regard, Ajibola (2005), Brown and Jackson (1990) cited in Ubi and Inyang (2017) highlighted the fundamental principles that regulate the practice of fiscal federation.

(1) **The principle of diversity.** This has become necessary in order to accommodate diverse ethnic groups with diverse public goods and service.

(2) **The principle of centralized stabilization.** This principle demands that federal government be positioned to effectively use fiscal instrument to achieve both micro and macro stabilization.

(3) **The principle of derivation.**This principle requires that the federating units should exercise some control over some of their preference with their resources.

(4) **The principle of fiscal equalization.** There should be some degree of fiscal equalization between the various levels of government in order to ensure the provision of a minimum level of public goods and service. This will assist in meeting over all marginal equilibrium.

(5) **The efficiency principle.** This is in two folds-firstly the efficiency in the allocation of resources without making anybody worse off. Secondly, efficiency in the ensuring that each level of government optimizes its internal revenue earnings capacity at minimum tax efforts without optimal distortion.

(6) **The principle of minimum provision of essential public goods and services.** This requires that the federal government should ensure that each citizen, no matter where they reside, be provided with a minimum level of essential public goods and services such as healthcare, education and other welfare needs.

To this extent, inter-governmental fiscal relation emerged from the practice of fiscal federalism to accentuate the import of fiscal relation between the levels of government to meet the yearnings of their respective jurisdictions.

Thus, Fatile and Adejuwon (2009) stressed that fiscal relation relates to how various levels of government especially in a federation constitutionally relate with one another both vertically and horizontally in sharing the financial resources of the country and distribution of responsibilities. Similarly, inter-governmental fiscal relation entails the provision of certain goods and services at different levels, what is justified on the existence of public goods which may be consumed nation-wide or whose benefits are restricted to a particular geographical area (Anderson, 2007, p.225).

3. The Practice of Inter-governmental Fiscal Relation in Nigeria

Basically, the legal and conventional practice of fiscal intergovernmental relation in Nigeria is traced to the era of pre-independence particularly the period of promulgation of Sir Arthur Richard Constitution of 1946 which predated the introduction of federalism in 1954. Notably, the policy of regionalism as enunciated in the provisions of 1946 Constitution created two-tier structure of government exemplified in the existence of central authority and the three regions which laid the foundation for the practice of fiscal federalism. In this regard, Madubuegwu (2017) writes that the establishment of the first revenue allocation commission in 1946 popularly known as the Philipson Commission (which recommended derivation and even-development principle as the formula for sharing revenue between the regions) accentuated the imperative of the policy of regionalism with regards to resource allocation for accelerated socio-economic development in Nigeria.

Furthermore, colonial authorities and successive civilian and military governments in post-colonial era established various forms of mechanisms for the administration of fiscal policies and legislation in response to the exigencies of their respective periods. Notably, Salami (2007) indicated that after 1946, there were over nine fiscal commissions, six military decrees and acts of parliament to design appropriate tax assignment and revenue allocation formula including the Hicks-Philipson Commission, 1951, Chicks Commission, 1953, RiesmanCommission, 1958, Bins Commission, 1964, Dina Commission, 1968, Aboyade Technical Committee, 1972, Okigbo Commission, 1980 and Danjuma Commission, 1988. All these mechanisms were established in search for efficiency in the generation, allocation and utilization of resources in response to the challenges of governance.

As earlier noted, Nigeria became a federation in 1954 with explicit jurisdictional sphere of powers and responsibilities between the federal and regional units. To illuminate the remarkable attributes of federal principles introduced in 1954 constitution, Madubuegwu (2017) noted that the constitution in strict compliance with the tents of federalism defined, specified and limited jurisdictional powers and roles between the federal government and regional units. Hence, the constitution provided that the Federal Government shall exercise power on items within the exclusive list and regional authorities should be assigned with residual power to exercise discretion on items within the residual list. To ensure co-ordination of powers, the constitution further stipulated that the federal and regional government shall exercise power within the current list. In a situation when the regional ordinance is inconsistent to the federal law then the federal law shall prevail.

Today, the structure of Nigeria federalism has advanced rapidly from three regions and central authority to;

(1) four regions and federal authority in 1963.
(2) 12-state structure and federal authority in 1967.
(3) 19-state structure and federal authority in 1976.
(4) 21-state structure and federal authority in 1987.
(5) 30-state structure and federal authority in 1991.

(6) 36-state structure and federal authority in 1996.

The change in the structure of Nigeria federalism invariably underlies peculiarities and challenges that have thrown-up various forms of revenue allocation formulas as earlier noted over the generation and distribution of wealth derived from rich liquid and solid minerals seen across states of six geo-political zones of Nigerian Federation. Though most of the mineral resources are yet untapped and underutilized to accelerate the process of industrial development and socio-economic growth of the federal economy.

Table 1: Mineral Resources across Geo-political Zones and States in Nigeria.

Geo-political		States	Mineral Resources
North Central	1	Benue	Lead/zinc, Limestone, Iron-ore, Coal Clay, Marble, Banxite, Salt Barutes, Gemstone, Gypsum, Oil and Gas.
	2	Kogi	Iron-ore, Kaolin, Gypsum, Feldspar Coal, Marble, Dolomite, Talc, Tantalite, Kaolin, Limestone, Gemstone and Bitumen.
	3	Kwara	Gold, Marble, Iron-ore, Cassiterite, Columbite, Tantalite, Feldspar and Mica.
	4	Nasarawa	Berylzircon, Tantalite,Cassiferite, Columbite, Ilmenite, Galena, Iron-ore, Barites, Feldspar, Limestone, Mica, Cooking Coal, Talc, Clay, Salt, Chalcopyrite.
	5	Niger	Gold, Lead/zinc, Iron-ore.
	6	Plateau	Emerald, Tin, Marble, Gramte, Tantalite/Columbite, Lead/zinc, Arytes, Iron-ore, Kaolin, Cassiterite, Gold, Lead/zinc, Dolomite, Bentonite, Phsochlore, Clay, Coal, Wolram, Salt, Bismuth, Fluoride, Molybelenite, Gemstone and Bauxite.
	7	FCT, Abuja	Marble Clay, Tantalite
North-West	1	Jigawa	Barites
	2	Kaduna	Sapphire, Kaolin, Gold, Clay, Serpentinite, Asbestos, Amethyst, Kyanite, Graphite, Mica, Aquamatine, Ruby, Rock, Crystal, Topaz, Fluospar, Tourmaline, Gemstone and Tantalite
	3	Kano	Pyrochlore, Cassiterite, Copper, Glass-sand, Gemstone, Lead/zinc and Tantalite
	4	Katsina	Kaolin, Marble and Salt
	5	Kebbi	Gold
	6	Sokoto	Kaolin, Gold, Limestone, Phosphate, Gypsum, Silica-sand, Clay, Laterite, Potash, Flakes, Granite, Gold and Salt
	7	Zamfara	Gold
North-East	1	Adamawa	Kaolin, Bentonite, Gypsum, Magesite, Berytes and Bauxite
	2	Bauchi	Amethyst, Gypsum, Lead/zinc and Uranium
	3	Borno	Diatomite, Clay, Limestone, Kaolin, Bentonite, Oil and Gas
	4	Gombe	Gemstone, Gypsum
	5	Taraba	Kaolin, Lead/zinc
	6	Yobe	Diatomite, Soda and Ash
South-South	1	Akwa-Ibom	Oil, Gas, Lignite, Uranium, Limestone, Clay and Lead/zinc
	2	Bayelsa	Oil, Gas, Gypsum, Manganese, Lignite, Clay, Limestone, Uranium and Lead/zinc
	3	Cross River	Oil, Gas, Limestone, Uranium, salt, manganese,

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			Lignite and Lead/zinc
	4	Delta	Oil and Gas, Marble, Glass-sand, Clay, Gypsum, Iron-ore, and Kaolin
	5	Edo	Oil and Gas, Clay, Marble, Limestone, Iron-ore, Gypsum, Glass-sand, Gold, Dolomite, Phosphate and Bitumen
	6	Rivers	Oil and Gas, Glass-sand, Clay, Marble and Lignite.
South-East	1	Abia	Gold, Salt, Oil and Gas, Limestone, Lead/zinc and Salt
	2	Anambra	Lead/zinc, Phosphate, Lignite, Clay, Limestone, Iron-ore, Glass-sand, and Gypsum
	3	Enugu	Goal, Limestone, Lead/zinc
	4	Imo	Lead/zinc, Limestone, Lignite, Marcasite, Gypsum, Salt, Oil and Gas and Phosphate.
	5	Ebonyi	Lead/zinc, Gold and Salt
South-West	1	Ekiti	Kaolin, Feldspar, Tatium, Granite and Syenites`
	2	Lagos	Glass-sand, Clay, Bitumen, Sand, Tar, Oil and Gas
	3	Ogun	Phosphate, Clay, Feldspar
	4	Ondo	Bitumen, Kaolin, Gemstone, Gypsum, Feldspar, Granite, Clay, Glass-sand, Dimension stories, Coal, Oil and Gas and Bauxite
	5	Osun	Gold Talc, Tantalite, Tourmaline, Columbite and Granite
	6	Oyo	Kaolin, Clay, Marble, Silimanite, Tale, Gold, Cassiterine, Aequamarine, Dolomite, Tantalite and Gemstone

Source:Authors compilation.

Significantly, the Federal Republic Constitution of 1999 (as amended) explicit in Section 162 outlined the procedure and mechanism for the distribution of wealth between the tiers or levels (federal, state and local) of Nigeria government.Salami (2011) remarked that government established federation account in order to disburse funds to the real beneficiaries (federal, state and local governments) in line with the constitution and approved revenue allocation formula. The disbursement of this fund is by the Federation Account Allocation Committee (FACC). The Federation Account Allocation Committee is made up of Minister of States for Finance (chair), Accountant-General of the Federation, Commissioners of Finance of the 36 states of the Federation and representatives of other institutions meet monthly.

As noted in the Section 162(1) of the constitution which states that "the federation shall maintain a special account to be called, "the Federation Account" into which shall be paid all revenues collected by the Government of the federation except the proceeds from the personal income tax of the personnel of the armed forces of the federation, the Nigeria Police Force, the Ministry or Department of government charged with the responsibility, Foreign Affairs and the residents of the Federal Capital Territory, Abuja".

To institutionalize the process of resource allocation between the levels of Nigeria government, the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) was established in 1989 and constitutionally charged with the responsibility of ensuring that this disbursement exercise is accurate, fair and transparent. In other words, to achieve this lofty ideal of distribution of wealth generated from the commercialization of resources spread across the federation, certain principles have been advanced over the years from the period of Philiphson Commission in 1946 to the recent time. These principles are;

(a) Derivation
(b) Need
(c) National interest and even development

Others but within less emphasis are;

(i) Population
(ii) Geographical peculiarities
(iii) Absorptive capacity
(iv) Internal revenue
(v) Equality of states
(vi) Continuity
(vii) Fiscal efficiency

(viii) National minimum standard for national integration
(ix) Land mass
(x) Financial comparability
(Dunmuye, 2002).

Table 2: Functions and Sources of Revenue of the Three Tiers of Government.

Government	Major Functions	Source of Revenue
Federal Government	Exclusive List a. Accounts of Government of the Federation. b. Currency issues c. External Affairs d. Defence and Security Concurrent List a. Higher Education b. Industrial development c. Agricultural development d. Roads and Health.	1) Statutory allocation from the Federation Account. 2) VAT 3) Independent revenue a. Personal income tax of armed forces personnel. b. Operating surpluses of parastalas c. Dividends from investment in publicly quoted companies. d. Rent on government property. e. Interest on loans to states and parastalas.
	1. Provision of social service-education, health care, roads, water supply, etc. 2. Agricultural development 3. Industrial development.	1) Statutory allocation from the Federation Account 2) VAT 3) Internally-generated revenue 4) Personal income taxes from persons resident in states 5) Fees for registration and licensing related to land matters.
Local Government	Provision of public goods and services. Primary school, Health care facilities etc Provision and maintenance of market places, cemeteries, homes etc.	1) Statutory allocation from Federation Account 2) VAT 3) Internally generated revenue 4) Property Tax 5) Licensing of Bicycles, Trucks other than mechanically propelled trucks), canoes, wheel etc.

Source: Apkan, (2003, p.173).

Furthermore, the fiscal inter-government relation in Nigeria Federation is streamlined in two fundamental structure and process known as the vertical allocation of distribution of federally collected revenue and, horizontal allocation.
In reference to vertical allocation, the federal government retains some of the federally collected revenue as its independent revenues and balance of the federally collected revenues is to be paid into the Federation Account for distribution among the tiers of government in accordance with agreed formula. Before independence, the regional government allocation was more than the Federal Government. The sharing formula as recommended by Raisman Commission, 1958 was 40.60% in favour of the regions. Then after and up till today, federal government is allocated the highest share of the federally collected revenue. (Salami, 2011, p.41).

Illustratively, the vertical formula is shown below:

	Beneficial	**Percentage**
1)	Federal Government	46.00%
2)	State Government (including FCT)	33.33%
3)	Local Government	21.00%

On the other hand, the horizontal allocation among states and local government council favored states with large land areas, large number of councils, high population and in some instances derivation principle prior to 1964, derivation was given the greatest weight 50% in horizontal revenue allocation. The balance was shared among the regions based on principle of equity as state (50%) and population (50%). Also between 1964 and 1976, there was no derivation, the principle of equality of state and population were still given equal weight of 50% in the allocation revenue among states. Between 1977 and 1981, equal access to development opportunities has a weight of 25% national minimum standard 22%, absorptive capacity 20%, independence revenue effort 18% and fiscal efficiency 15%. Thus between 1982 and 1998, equality of states has a weight of 40%, population 30%, independent effort 10%, land mass and terrain 10% and social development factor, 10%. From 1999 equality of states had, the highest weight of 40% under allocation among states. This is followed by population, 30%. The balance of 30% is being shared by social development factor, 10%, landmass 10% and internal revenue effort 10% respectively. For the distribution of VAT proceeds among states and local governments, the indices are derivation (20%), equality (50%) and population (30%). The horizontal distribution formula had remained stable since 1981, expect, for the increase in derivation principle for mineral revenue to 13% in the 1999 to Nigeria nine oil producing states (Salami, 2011, Jimoh, 2005, Vincent 2002).

Again, the table below is a reflection of sharing formula structure between various tiers of government in Nigeria. Below is the vertical allocation structure:

Revenue Sharing Formula in use in Nigeria
Practical Revenue sharing formula (1999 – 2007)

Year	Beneficiaries	Formula (in percent)
1999 – 2000	Federal government	54.68
	States	24.72
	Local councils	20.60
		100.00
2001	Federal government	41.30
	States	31.00
	Local councils	16.00
	Special funds	11.70
		100.00
2002 – 2006	Federal government	54.68
	States	24.72
	Local councils	20.60
		100.00
2007	Federal government	52.68
	States	26.72
	Local councils	20.60
		100.00

Source: Abianga, (2012, p.40)

Also the Horizontal formula showing the structure of allocation among states and local government areas:

	Principles of Allocation	Percentage
(1)	Equality	45.00
(2)	Population	25.60
(3)	Population Density	1.45
(4)	Internal Revenue (generation effort)	8.31
(5)	Landmass	5.35
(6)	Terrain	5.35
(7)	Rural roads/inland water ways	1.21
(8)	Portable water	1.50
(9)	Education	3.00
(10)	Health	3.00
		100.00

Source: Ola,(2014, p.41).

Table 3: Nigeria's Federal, State and Local Tax Jurisdiction and Assignment

Tax	Legal Jurisdiction	Collection	Retention
Import duties	Federal	Federal	Federation Account
Excise duties	Federal	Federal	Federation Account
Export duties	Federal	Federal	Federation Account

Mining rents and royalty	Federal	Federal	Federation Account
Petroleum profit tax	Federal	Federal	Federation Account
Capital gains tax	Federal	State	State
Personal income tax (other than listed in 8)	Federal	State	State
Personal income tax: armed & police forces, external affairs officers, non-residents of the Federal Capital Territory	Federal	Federal	Federal
Value added tax (sales tax before 1994)	Federal	Federal	Federation/state
Company tax	Federal	Federal	Federation Account
Stamp duties	Federal	State	State
Gift tax	Federal	State	State
Property tax and ratings	State	State/local	State/local
Licenses and fees	Local	Local	Local
Motor park duties	Local	Local	Local
Motor vehicle	State	Local	Local
Capital transfer tax (CTT)	Federal	State	State
Pools betting and other betting taxes	State	State	State
Entertainment tax	State	State	State
Land registration and survey fees	State	State	State
Market and trading license and fees	State	Local	Local

Source: Abdul (2017, p.56).

Table 4: Nigeria: Expenditure Assignments

Tier of Government	**Expenditure category**
Federal only	Defense, Shipping, Federal Truck Road, Aviation, Railways, Posts, Telegraphs and Telephone, Police and other Security Services. Regulation of Labour, Interstate commerce, Telecommunications, Mines and Minerals, Social Security, Insurance, National Statistical System, National Parks, Guidelines for minimum education standards at all levels, water resources affecting more than one state.
Federal-State (shared)	Antiquities and monuments, electricity, industrial, commercial and agricultural development, scientific and technological research, statistics and survey, university, technological and post-primary education, health and social welfare.
State-local (shared)	Primary, adult and vocational education, health service, development of agriculture and non-mineral natural resources.
Local	Economic planning and development, cemeteries burialgrounds, home for the destitute and, markets, sewage and refuse disposal, roads, streets, street lighting, drains and other public utilities

Source: Khemani (2001, p.4)

A cursory review of the foregoing analysis, figures and tables shown certain fundamental realities in Nigeria's fiscal intergovernmental relations.

(i) The soil of the country is rich in liquid and solid mineral resources (yet untapped) relevant to industrial development and socio-economic growth.

(ii) Search for equity and fairness in the allocation or redistribution of wealth or revenue between the three levels of government.

(iii) The lopsided structure of fiscal inter-governmental relation where the central authority or federal government exert enormous influence with regards to revenue generation and redistribution.

These indicators invariably implied that the practice of fiscal federalism in Nigeria is depleted with daunting challenges.

4. Challenges of Fiscal Intergovernmental Relation in Nigeria

Emphatically, twenty-nine years of intermittent military rule in Nigeria had adversely undermined principles and practice of federation nay fiscal inter-governmental relation. It was from this authoritarian era that the federal or central authority emerged rapidly with enormous influence and power to dominate the affairs of the federation in contrary to the established ideals of decentralization and devolution. In this sense, Aigbepue and Ainabor (2011) lamented that inspite of outlined procedure expected to provide adequate financial resources for the different tiers of government to meet their constitutional assigned functions and responsibilities, it is however unfortunate though to note that the dynamics of federation have unconsciously or consciously subordinated the lower tiers of government to the center. Invariably Salami (2011, p.31) embellished further that;

> The lion share of total Nigerian revenue is collected by the federal government. For instance between 1980 and 2008 about 93.9% of the total Nigerian government revenues were collected by the federal government. This is not unexpected as the federal government is solely responsible for collection of mining rights and royalties, petroleum profit tax Nigeria's major revenue service and share VAT collection with state government. This implies that the local and state government put together collect less than 7% of Nigeria's government revenue.

To the adverse effects of this unpleasant situation, Bello-Imam (1999) and Agba (2004) stressed that it has developed mutual suspicion between the component groups in the country and this has snowballed into such problem of the national question, revenue allocation and resource control. The country is yet to settle the issue of how the nation's resources are to be allocated vertically among the three tiers of government and horizontally among the states as well as among the local government units.

In other words, the dilemma of this unpleasant development ostensibly reflect in the crisis of revenue allocation formula. Therefore, the practice of derivation (which had over the years defined the structure and functionality of the revenue sharing) is depleted with torments of mutual distrust and incessant conflicts between the federal, state and local governments in Nigeria. What really constitute the meaning and nature of derivation?;Nwokedi (2007) opined that the principle of derivation requires that all revenue which accrue from or are attributed to a particular state should be allocated as part or in full to such state, irrespective of the fiscal jurisdiction involved or machinery for collection. The principle is closely related to the benefit of taxation.

However, the formula is structured in a way that allocates more fund to the federal government at the detriment of the state and local government. The system discourages strives for an increased internally generated revenue (IGR). This is because most state wait for allocation from the Federation Account without much effort at getting increased level of IGR. The allocation to the LGAs are reallocated in most states by a committee namely state Joint Allocation Committee (JAC) which is unconstitutional and an aberration that needs to be discouraged (Adeleke, 2014).

Furthermore, beyond the dysfunctional practice of the derivation principle, there is also problem of imbalance in the expenditure roles in credence to what is allocated. In this vein, Odoko and Nwanna (2009) argued that the challenges of fiscal federation in Nigeria hinge on the equity of the expenditure assignment and revenue sharing. And, expenditure assignment formula has been generally inadequate in addressing the needs and resource gap among the three tiers of government.

Again, the tax structure and administration in Nigeria is fraught with enormous challenges as outlined below:

(i) Tax administration challenges where there were inadequate personnel and institutional capacity to administer taxes effectively.

(ii) Compliance problem obvious in the failure of employers to keep accurate records and remit all personal income tax (PIT) to relevant authorities remains a challenge inspite of penalties and the payment of tax arrears.

(iii) Lack of reliable statistics on the various tax payers, which is a hindrance for identification and assessment of tax payers.

(iv) Lack of equality especially in PIT which remains a major problem of taxation in Nigeria where self-employed outnumber paid workers and earn as much as four times that of the formal sector employees the bulk of PIT is paid by employees whose salaries are deducted at source.

(v) There are over 500 different taxes and levies (approved list collection) Act. The multiplicity of tax-imposing and tax-collecting structures drives up the cost of doing business and destroy investors' confidence.

(vi) Fraud and corruption on the part of tax-collecting institutions is an issue that needs to be addressed. Revenue collectors, inspite of various control measures and the presence of (Salami, 2011, Mahmud, 2008).

Profoundly was the issue of 13% derivation for oil producing states. And, the resource control contention between the federal government and other tiers of government. This irreconcilable issue militated against the thrive of 2005 National Political Reform Conference as documented by Madubuegwu (2017, p.267-271).

> The source of contention between the south-south delegates and Northern representative on the percentage derivation accruing to the percentage derivation accruing to the oil producing areas. It was the majority view that the mineral producing areas deserved more than the 13% derivation specified in the 1999 Constitution. Most members suggested increase ranging from

> 13% to 50% while others however opined that the exact figure should be best established after taking into account all relevant scientific and political consideration.
> The conference therefore recommend that a special committee be set up to advise on the exact amount of increase in derivation percentage. An increase in the level of derivation from the present 13% to 17% in the interim pending the report of the expert Commission. Delegates from South-South and other oil producing states insisted on 30% as incurable minimum. Having regards to national unity, peace and stability, they are willing to accept in the interim 25% derivation with a gradual increase to attain 505 even after a period of five years. The conference also illuminate the height
> of suspicion and failure of consensus among the
> ethnic nationalities of Nigeria. This is apparent in irreconcilable issue of resource control between the North and South prompting the walkout of
> delegates of the Niger Delta which nearly disrupted the proceedings of the conference and cast a serious doubt on consensus reached. An indication of failed understanding between the North and South Divide.

These bedeviling challenges have ostensibly constrained genuine efforts towards nation-building and national development. It therefore calls for a clarion call for concerted efforts to stem the tide of crises of inter-governmental fiscal relation in Nigeria

5. Conclusion and Recommendation

Nigeria federalism is dysfunctional. This dysfunctionality emanated from years and decades of authoritarian rule and insincerity of the political elite of the present democratic dispensation. This unpleasant situation is massive on the convention, practice and structure of inter-governmental fiscal relations between the tiers of Nigeria government. It has also exacerbated centrifugal tendencies that constituted serious threat to the stability, development and continuity of Nigerian federation.

In reference to the findings of this discourse, policy recommendations is not only necessary but fundamental for true fiscal federalism in Nigeria. First, there is need to amend the federal republic constitution of 1999 as regarding the list of powers and responsibilities between the federal, state and local government. Hence, the enormous responsibilities concentrated on the Exclusive listfor the federal government should be devolved to state government to entrench the practice of ideals of federalism.Also, the resolutions reached on true federalism as enunciated in the reports of 2005 National Political Reform Conference and 2014 national conference should be re-examined in credence to current realities and genuine efforts initiated to enact them into law and policy.

Secondly, the membership of Federation Allocation Account Committee, FAAC should be expanded to include the representatives of the Nigeria Local Government. Also, a new derivation formula should be consensually adopted by the federating tiers of government in referenceto the exigencies and challenges of the Nation-state.

Thirdly, the present structure of tax administration and jurisdiction should be adjusted in line with the targets and expectations of the new advanced formula. Also, there is need for a policy guidelines to consider and implement technical resolutions recommended by expert committees under successive governments in reference to current realities and challenges of the federation.

Fourthly, the state and local governments should through domestic and co-ordinative socio-economic policies initiate mechanism and processes to accelerate industrial and economic development. Thus, the sub-tiers of government should be self-sustaining and shift from institutional reliance on the federal government and FAAC in responding to the myriad needs and expectations of their indigenes and residents.

It is therefore believed that these fundamentals and, other brilliant ideas shared by scholars and practitioners shall be initiated into legislations, policies and precedents to ensure optimal practice of fiscal federalism that responds to the priorities of nation building and development.

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