RETHINKING OF FISCAL FEDERALISM: CHALLENGES OF REVENUE ALLOCATION AND INTER-GOVERNMENTAL RELATIONS IN NIGERIA

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ABSTRACT

The paper is a study of fiscal federalism in Nigeria which presupposes management and expenditure of the nation-state, with a particular focus on the challenges surrounding revenue allocation to local governments and the interactions among various tiers of government. Nigeria's unique federal structure, characterized by a tripartite system comprising the federal, state, and local governments, has generated both opportunities and challenges in the allocation of resources. The allocation of revenue to local governments, which represent the closest level of government to the people, is a fundamental component of effective governance and socio-economic development. However, this process is marred by issues such as inequitable distribution and fiscal dependency based on section 162(6) of the 1999 Constitution as amended. The methodology employed in this study is based on a comprehensive review of secondary data sources. A diverse range of governmental reports, academic papers, policy documents, and statistical data were analyzed which provide a comprehensive overview of the challenges and interactions among various tiers of government in Nigeria's fiscal federalism. This secondary data analysis facilitates a thorough examination of past and current trends in revenue allocation, inter-governmental relationships, and the impact of policies and reforms. The paper recommends continuing contribution to the ongoing discourse on fiscal federalism in Nigeria for constitutional amendment and provides insights into potential reforms to enhance revenue allocation and the cooperative governance system in Nigeria's federalism.

Keywords: *Rethinking, Fiscal, Federalism, Revenue*

INTRODUCTION

Fiscal federalism connotes the interplay of financial resources and governmental authority among the various tiers of government, constitutes a fundamental aspect of governance in Nigeria. It covers the spheres of revenue generation and disbursement or expenditure. The country's unique federal structure, comprising the federal, state, and local governments, presents a dynamic and complex landscape for resource allocation and governance. This paper examines the complexities of fiscal federalism in Nigeria, with a particular focus on the challenges associated with revenue allocation to local governments and the interactions among these diverse layers of government.

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Nigerian federalism, much like other federal systems of government, is characterized by its diversity in terms of ethnic groups, languages, cultures, political affiliations, and the constant struggle for political power. To address the need to accommodate and serve these diverse elements at the grassroots level, local governments were formally established during colonialism.

Local government, therefore, became the third tier of administration with a degree of autonomy. This autonomy allows for interactions with both the central and state governments. Key characteristics of the federal government include the independence and separation of each level of government, the principle of non-interference in the distribution of powers, and the presence of a supreme court and a court of law to act as mediators in intergovernmental disputes (as described by Fatile and Adejuwon in 2009 cited in Ijimakinwa *et al..,* 2015).

Intergovernmental relations (IGR) provide a platform for various legal, political, and administrative relationships between different levels of government, each with varying degrees of autonomy. IGR encompasses interactions between the national and regional levels, as well as among the federal, state, and local governments, as defined by (Ajulor and Okewale in 2011 cited in Ijimakinwa *et al.*., 2015).

Freinkman, (2007) sees Nigeria's fiscal federalism as a model which serves fundamental legal and institutional framework that guides policymaking in the country. Much like in other federal systems, it establishes the fundamental rules for resource allocation, delineates responsibilities for providing services, and outlines mechanisms for interaction between different levels of government. In recent times, Nigeria's fiscal federalism arrangements have been gaining increased attention from both policymakers and analysts. This heightened focus reflects the realization that the country's long-term economic policy reforms heavily rely on the improvement of inter-governmental arrangements. These arrangements have a direct impact on the achievement of national economic growth and poverty reduction objectives.

Fiscal decentralization, in contrast, occurs when regional or local governments possess the authority, granted to them either through constitutional provisions or specific legislation, to generate revenue through taxation and engage in expenditure activities that adhere to well-defined legal guidelines (as described by Tanzi in 1995 cited in Anyanwu, 1999).

Elaigwu *et al.*. (2014); Nigeria's fiscal federalism model serves as a crucial legal and institutional framework that guides policymaking in the country. Like in other federal systems, it lays down the fundamental rules for resource allocation, defines the distribution of responsibilities for delivering services, and outlines mechanisms for interaction between the various tiers of government. Lately, Nigeria's fiscal federalism arrangements have been garnering increased attention from both policymakers and analysts. This is indicative of the fact that the country's long-term economic policy reforms are intricately tied to improvements in the structure of intergovernmental relationships. These arrangements directly affect the country's ability to achieve its goals of economic growth and poverty reduction.

In simple terms, there is a pressing need to enhance the incentives for government agencies at all levels of authority to collaborate in shaping their policies and delivering services more effectively. Simultaneously, there is a need to build the necessary capacity to support such future intergovernmental cooperation.

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Nigeria's federal system is distinctive, shaped by a historical and political evolution that has crafted a governance framework where each tier of government possesses specific roles, responsibilities, and revenue-generating capacities. The allocation of revenue to local governments, as the tier closest to the people, plays an indispensable role in the socio-economic development of the nation. It is a mechanism for ensuring that resources are distributed equitably and effectively to cater to the needs of citizens at the grassroots level, Elaigwu *et al.*. (2014).

Sanusi, *et al.*, (2013); In a federal system, the relationships between different levels of government have gained increasing importance, particularly involving the central government and other constituent units. Nigeria operates a three-tier federal system, where the central, state, and local governments must work together both vertically and horizontally to ensure effective governance. The stability of this system relies on the extent of cooperation among these levels of government. Inter-governmental relations encompass a wide range of social, political, and economic issues relevant to both the government and its citizens, as government activities have expanded. In Nigeria, local governments interact with other government levels in three ways: federal-local government relations, state-local government relations, and local-local government relations. The main focus of this study appears to be on the State Joint Local Government Account, indicating an examination of financial aspects related to inter-governmental relations between state and local governments.

Chima *et al.*. (2018); Intergovernmental relations refer to the interactions that take place among various levels of government. These interactions often involve conflicts, and the degree of conflict can vary depending on how they are handled by the entities operating at different government levels. This study focuses on the management of conflicts within intergovernmental relations in Nigeria.

Alo, (2012) posited that historically, local government in Nigeria has encountered a myriad of challenges. These issues have included a lack of autonomy, a central government with authoritarian tendencies, and financial constraints, among other obstacles. The British colonial administration's native administration setup struggled to operate independently, often facing frequent interventions from the central colonial authority.

STATEMENT OF PROBLEM

The research delves into the fiscal federalism in Nigeria, with a specific focus on the challenges surrounding the allocation of revenue to local governments and the interactions among various tiers of government. Nigeria's distinctive federal structure, characterized by a tripartite system comprising the federal, state, and local governments, offers both opportunities and challenges in resource allocation. The allocation of revenue to local governments, serving as the closest level of government to the people, is a crucial element for effective governance and socio-economic development. However, this process is beset by issues such as inequitable distribution, variations in revenue generation capacities, and fiscal dependency.

The research will employ a methodology based on a comprehensive review of secondary data sources, encompassing a diverse range of governmental reports, academic papers, policy documents, and statistical data. Through this extensive secondary data analysis, the study aims to provide an in-depth examination of

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historical and contemporary trends in revenue allocation, inter-governmental relationships, and the impact of relevant policies and reforms.

OBJECTIVES

The primary objective of this study is to comprehensively analyze the fiscal federalism framework in Nigeria, with a specific focus on the challenges related to revenue allocation to local governments and the dynamics of intergovernmental interactions among the various tiers of government. This research aims to achieve the following objectives:

a) Examine the complexities and challenges associated with revenue allocation in Nigeria's unique tripartite federal structure, consisting of the federal, state, and local governments.

b) Assess the extent of equitable distribution, revenue generation capacities, and fiscal dependency issues in the current system of revenue allocation to local governments.

c) Conduct a thorough analysis of secondary data sources, including governmental reports, academic papers, policy documents, and statistical data, to gain a comprehensive understanding of the historical and contemporary trends in Nigeria's fiscal federalism.

d) Investigate the dynamics and relationships between the federal, state, and local governments, with a focus on issues of autonomy, overlapping responsibilities, and conflicts.

e) Contribute to the ongoing discourse on fiscal federalism in Nigeria by providing valuable insights into potential policy reforms that can enhance the system of revenue allocation and promote cooperative governance among the various tiers of government.

CONCEPTUAL DISCUSSION

Federalism

Udo, (2019); Federalism originates from the Latin word "foedus," which means covenant. It is a political concept where a group of individuals are united by a covenant with a governing representative head. Additionally, federalism refers to a system of government in which sovereignty is constitutionally divided between a central governing authority and constitutional political units, such as states and local governments. In essence, federalism signifies the presence of multiple levels of government within one country, each possessing distinct expenditure responsibilities and taxing powers on what is exclusive to a level or concurrent to levels of government. However, it must be noted that monetary control of a federal state is on the exclusive list of the Federal government, but revenue is shared. It primarily concerns the structure of government in a multilevel sense, rather than focusing on a specific government level in the performance of governmental functions. Many believe that the concept of intergovernmental relations is closely associated with horizontal and vertical relationship that exist between levels of government and indeed in a federalism and the examination of intergovernmental relations (Bamidele, 1980).

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Fiscal Federalism

Fiscal federalism refers to the fiscal relations and transactions between the three levels of government. According to Herber (1979 cited in Akhere, *et al.*, 2015), it involves the division of fiscal or financial powers between different levels of government in a federation. It is a system where a country has multiple levels of government, each with distinct expenditure responsibilities and taxing authority (Okigbo, 1969 cited in Akhere, *et al.*, 2015). Fiscal federalism provides a framework for assigning responsibilities to different government levels and the necessary fiscal tools for carrying out these functions. As Sharma (1995 cited in Akhere, *et al.*, 2015) views it, fiscal federalism comprises a set of guiding principles that assist in designing financial relations between the national and sub-national levels of government. Therefore, fiscal federalism encompasses the system of revenue generation, allocation, and redistribution among the constituent units in a federal system, allowing for regional fiscal autonomy.

The term "fiscal" has its roots in the Latin word "fiscus," which denotes a basket or purse and is associated with the public treasury or revenue management. A fiscal system encompasses the organization of how a governing body manages the public treasury, involving aspects of both revenue generation and expenditure. Fiscal federalism, as a result, pertains to the financial relationships that exist among different units of government within a federal system. It outlines the legal framework within which governmental functions, such as resource allocation, income distribution, and stabilization, are executed in a multilevel government structure comprising national, regional or state, and local or district levels. These fiscal relationships are typically based on mutual agreements. The sub-national governments, although autonomous in local matters, pool their shared resources to provide national public goods and enhance economic well-being within their respective areas of jurisdiction. In this sense, fiscal federalism is primarily concerned with revenue generation and distribution among the various levels of government (Alade, 1999 cited in Udo, 2019).

Local Government

Sanusi, *et al.*, (2013); The concept of the local government, positioned as the third tier of governance, is based on the principle of bringing the tools of governance closer to communities. This approach aims to capture the interests and aspirations of local communities and integrate them into the governance and development at residual and national levels through an input-output analysis. Local governments provide a platform for citizens to exercise their political rights through representatives at the local council level, which is established by law to execute specific powers within their defined jurisdictions. Local governments are distinct legal entities with the authority to generate their own revenue within their designated areas of jurisdiction, as prescribed by the constitution.

Intergovernmental Relations

The concept of intergovernmental relations (IGR) can be comprehended by examining three distinct dimensions or schools of thought. The first school of thought contends that intergovernmental relations are prevalent in a federal system. The second school of thought posits that it can occur in both federal and unitary systems of government, while the third school emphasizes that it can even extend to the international level. These perspectives collectively illustrate that intergovernmental relations are not bound to any

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particular system of government. In essence, intergovernmental relations are a dynamic and versatile concept that can manifest in both federal and unitary systems, transcending the boundaries of governance structures.

Intergovernmental relations- The term refers to interactions between different governmental units within a political system. The obvious purpose of IGR institutions and processes is to help components of a federal, state and local governments share information, articulate their respective actions in areas of exclusive competences, and structure their respective actions in concurrent or shared competences. IGR – existing or occurring between two or more governments or levels of government; eg Federal Account and Allocation Committee (FAAC) where monthly meeting is held on revenue generated and subsequently, shared between the States and the Federal government.

HISTORICAL DEVELOPMENT OF FISCAL FEDERALISM IN NIGERIA

According to Akhere *et al.*. (2015); The history of fiscal federalism in Nigeria dates back to the Macpherson's Constitution of 1951 and Littleton's Federal Constitution of 1954, which transformed Nigeria into a federal state with regional autonomy. These documents established that revenue distribution would be based on each region's contribution. However, the military's intervention in politics in 1966 created a disruption in the nation's fiscal affairs. Previous research has primarily focused on the structural and revenue principles adopted over the years. In contrast, this study places its main emphasis on the nature, trends, the structure of fiscal practices, and their impact on development in Nigeria.

Fiscal federalism, as defined by Hyman in 1990, refers to the allocation of taxing and expenditure responsibilities among different levels of government. Research by Oriakhi in 2004 found that due to the hierarchical structure of the federal system, governments often allocated more funds to themselves at the expense of other regions. To address this mismatch between expenditure obligations and revenue sources, revenue allocation has been used as a mechanism to correct the imbalance, especially at lower levels of government. Offiong in 2013 concluded that revenue allocation at the lower tiers of government has been skewed due to the criteria used, causing these levels to rely heavily on the federal government for survival.

In contrast, (Bird 1979) argued that fiscal federalism in Canada is based on four factors: shared cost programs, tax collection agreements, established program financing, and equalization. Mbanefor *et al.*. in 1999 noted that fiscal federalism in Nigeria differs from other federal states. Since 1992, the sharing formula has remained at 48.5% for the federal government, 24% for the states, and 20% for the 774 local governments. However, the Nigerian state operates more as a quasi-federal political system where the federal government dominates the states, and in turn, the states dominate the local governments, which challenges the country's constitutional framework. This has led to a practice resembling an advanced unitary system, significantly impacting the nature of fiscal federalism in Nigeria, as observed by (Dibie in 2014 cited in Akhere, *et al.*, 2015).

This development has led to a sense of irresponsibility among the various government units, hindering meaningful development. The national government is more adept at managing equitable income distribution and ensuring high employment levels, while regional governments excel in efficiently allocating resources. Several scholars have employed different methods in their analyses. For example, (Jimoh, 2003 cited in

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Akhere, *et al.*, 2015) utilized regression analysis to examine the impact of government expenditure decentralization on economic activities in Nigeria. His findings suggested that a more decentralized governance system would stimulate economic growth, which is vital for addressing poverty and demographic challenges.

Kayode (2014 cited in Akhere, *et al.*, 2015) focused on four key principles to address the core issues of Nigerian fiscal federalism and development: accommodation, correction of spillover effects, social safety nets, and derivation. The study concluded that the country's fiscal problems can be traced back to its historical origins and the character of the fiscal arrangement. Politicization of the revenue-sharing formula has perpetuated inequitable federalism both vertically and horizontally. The study also highlighted issues such as rent-seeking, corruption, cost and balance merit, and the diminished role of the principle of derivation in the revenue-sharing formula since the discovery of oil, which has contributed to perceived imbalances in the system.

Olofin *et al..* (2012 cited in Akhere, *et al.*, 2015) found substantial differences in revenue allocation at the state and local government levels in Nigeria from 1999 to 2008. For instance, the South-East zone benefited less from statutory allocation compared to other zones, while the Northwest zone received more from VAT. The North-Central zone was the smallest beneficiary, and oil-producing states received the largest statutory allocation.

According to (Ojeifa, 2004 cited in Akhere *et al.*., 2015), military interventions in politics significantly changed fiscal practices, leading to the enactment of unscrupulous decrees that vested the power of ownership of oil and mineral resources in the federal government. This, coupled with the lack of diversification and over-centralization of resources, has impacted the economic survival of state governments. The Nigerian economy's heavy dependence on oil, primarily found in the Niger Delta region, has not translated into prosperity for the region's citizens, who face environmental degradation and hazards. Additionally, the reluctance to adopt a derivation-based revenue-sharing formula, as well as resource control agitations from Niger Delta leaders, has contributed to underdevelopment.

The paper indicates that centralization in revenue allocation formulae has negatively affected the economic well-being of state governments. States often face mismatches in their tax and expenditure responsibilities, leading to challenges, as highlighted by (Aigbokhan 1999, cited in Akhere, *et al.*, 2015).

In this paper, the focus is on the impact of the existing formula on the development of different composite units achieved through the utilization of a historical method and the analysis of secondary data from various sources.

REVENUE ALLOCATION IN NIGERIA

The nation's economic potential, including the discovery of new oil wells, abundant raw materials for iron and steel production, and diversification in the oil industry to include products like fertilizer, liquefied gas, and aluminum, offers promising prospects for increased productivity in the future. Diversifying production can lead to higher revenue generation. It's crucial to emphasize that a nation's wealth isn't solely determined

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by the possession of basic raw materials but by the actual productivity of its people and the mechanisms of exchange for goods and services (Onayemi and Ishola, 2009 cited Tom *et al.*., 20211).

To avoid an overemphasis on revenue allocation at the expense of revenue derivation, it's important to periodically review the revenue-earning capabilities and fiscal efficiency of the various components of the federation. Fragmentation should be limited to prevent the constituent units from becoming too small, which could undermine their financial autonomy. Enhancing the capacity for internally generated revenue should be a priority through purposeful restructuring and tax reforms, (Tom *et al.*, 2021).

The criterion for revenue allocation should focus not on unproductive and population-dependent factors but on the social and economic development of the population through targeted technical manpower training. Without the necessary skills to transform raw materials into finished products and provide efficient services, a population may become overly dependent on imports for most of its needs. This import-dependency can lead to technological poverty and the perpetuation of neo-colonialism (Kruegor, 1928; Bhawati, 1978; Papageorgious *et al.*, 1991; Iyola, 1995, cited in Tom *et al.*, 2021).

Export trade is recognized as a catalyst for economic growth, as it stimulates job creation through the development of export-oriented industries, boosts foreign exchange earnings, and improves a nation's balance of payments (Onayemi and Ishola, 2009, cited in Tom, *et al.*, 2021). Several studies support this claim, with historical evidence showing that growth performance is more favorable under export promotion policies.

The principle of derivation plays a central role in determining who gets what, when, where, how, and why in any political system. It acknowledges that the resources used for generating revenue come from specific material locations. The exploitation of these resources for revenue can deplete the economic potential of the environment, and compensation is essential to prevent some sections of society from experiencing deplorable living conditions in the future (Akpakpan, 2004, cited in Tom *et al.*, 2021).

Revenue allocation serves as the mechanism for distributing the nation's financial resources among the various tiers of government within the federation. The primary objectives of revenue allocation are to foster sustainable economic growth and development, reduce inter-governmental conflicts, and promote national unity (Ola and Offiong, 1999 cited in Akhere, *et al.*, 2015). Both the federal and state governments are responsible for managing the revenues generated in the economy, which includes financial resources for the federal, state, and local governments (Oriakhi, 2004 cited in Akhere *et al.*, 2015).

CONTEMPORY FISCAL FEDERALISM IN NIGERIA

The current fiscal federalism in the country is grounded in Section 162 of the Constitution of the Federal Republic of Nigeria 1999 as amended which states the following, but with emphasis on subsection (6) for the grassroots governance:

1. 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

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Force, the Ministry or department of government charged with responsibility for Foreign Affairs and the residents of the Federal Capital Territory, Abuja.

2. The President, upon the receipt of advice from the Revenue Mobilisation Allocation and Fiscal Commission, shall table before the National Assembly proposals for revenue allocation from the Federation Account, and in determining the formula, the National Assembly shall take into account, the allocation principles especially those of population, equality of States, internal revenue generation, land mass, terrain as well as population density;
3. Provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than thirteen per cent of the revenue accruing to the Federation Account directly from any natural resources.
4. Any amount standing to the credit of the Federation Account shall be distributed among the Federal and State Governments and the Local Government Councils in each State on such terms and in such manner as may be prescribed by the National Assembly.
5. Any amount standing to the credit of the States in the Federation Account shall be distributed among the States on such terms and in such manner as may be prescribed by the National Assembly.
6. The amount standing to the credit of Local Government Councils in the Federation Account shall also be allocated to the State for the benefit of their Local Government Councils on such terms and in such manner as may be prescribed by the National Assembly.
7. Each State shall maintain a special account to be called "State Joint Local Government Account" into which shall be paid all allocations to the Local Government Councils of the State from the Federation Account and from the Government of the State.
8. Each State shall pay to Local Government Councils in its area of jurisdiction such proportion of its total revenue on such terms and in such manner as may be prescribed by the National Assembly.
9. The amount standing to the credit of Local Government Councils of a State shall be distributed among the Local Government Councils of that State on such terms and in such manner as may be prescribed by the House of Assembly of the State.
10. Any amount standing to the credit of the judiciary in the Federation Account shall be paid directly to the National Judicial Councils for disbursement to the heads of courts established for the Federation and the States under section 6 of this Constitution.
11. For the purpose of subsection (1) of this section, "revenue" means any income or return accruing to or derived by the Government of the Federation from any source and includes;
    a. any receipt, however described, arising from the operation of any law;
    b. any return, however described, arising from or in respect of any property held by the Government of the Federation;
    c. any return by way of interest on loans and dividends in respect of shares or interest held by the Government of the Federation in any company or statutory body.

THE PRINCIPLES OF REVENUE ALLOCATION IN NIGERIA

Akhere *et al.*, (2015), in Nigeria, the allocation of revenue has been a long-standing and contentious issue within the country's fiscal federalism. This challenge has persisted because the 36 states in the federation

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rely heavily on statutory allocations from the government's revenue account to support their development initiatives. This revenue allocation issue has created significant hurdles for efficient and effective public administration and has been a concern since 1946, with a growing number of fiscal units. Nigeria's administrative structure has evolved significantly over the years. It began as two protectorates, then expanded to three regions, further to four regions with the creation of the Midwest, and later increased to 12 states, 19 states, 21 states, and presently 36 states, with an additional 774 local governments. Furthermore, the Nigerian economy is heavily dependent on a single product, which has given rise to the pervasive issue of ethnicity that the nation has yet to resolve.

According to (Ola and Offiong 1999 cited in Akhere, *et al.*, 2015), the revenue allocation formula comprises:

Principle of Derivation

This principle is highly contentious, with different regions of the nation interpreting it in ways that suit their objectives. It is fundamentally rooted in the concept of equity. Advocates argue that states with the capacity to generate tax revenue and those naturally endowed with resources should receive a significant allocation compared to states lacking these endowments. They assert that allocation should be based on derivation, meaning that a certain percentage should be set aside for this purpose.

This principle is particularly associated with the Niger-Delta region, and its proponents argue that their communities should be adequately compensated for the environmental and societal damage caused by oil exploration and exploitation. On the other hand, some Nigerians, especially from non-oil producing areas, oppose this principle on the grounds that natural resources belong to the federal government. They argue that a portion of the federal revenue should be allocated to states based on the extent of oil exploration and exploitation in the oil-producing communities. According to this perspective, the ownership of these resources belongs to the entire nation, not just the states where they are discovered.

Even Development Principle

The primary objective of this principle is to promote the equitable spread of growth and development across different regions, thereby reducing inequalities and imbalances. Allocation based on this principle is rooted in the idea of equity, emphasizing that funds should be distributed to address developmental disparities. This approach contends that allocating funds on an equal basis may exacerbate development gaps and compound existing issues.

Principle of Need

This principle is rooted in the needs of a state, particularly in terms of development, and it suggests that revenue should be allocated based on these needs. Every government has various requirements to meet, such as infrastructure development. The effectiveness of this principle depends on a legitimate assessment of needs, which should ideally be based on objective data, including population census. Unfortunately, in Nigeria, population census has been subject to political manipulation, and as a result, there is no specific state whose needs are universally considered more crucial than others.

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Principle of Population

This principle advocates for revenue allocation to be based on a state's population. In other words, states with lower populations should receive a higher allocation than states with larger populations in horizontal revenue sharing. Supporters of this principle argue that highly populated areas are often rich in human and natural resources, and therefore, they should receive a smaller share of revenue. However, this principle has faced criticism because revenue allocated based on population has, at times, been diverted by the elite. Additionally, the controversy surrounding the accuracy of the 1991 census figures has raised questions about the suitability of using population as a formula for revenue allocation.

Internal Revenue Effort

Ijimakinwa, *et al.*, (2015); This principle places a strong emphasis on a state's ability to generate revenue internally. States that excel in generating revenue on their own are more likely to receive a higher allocation from the federal government. However, this principle has sparked debates, especially from states that lack the capacity to generate significant internal revenue. To address these concerns, it underwent several modifications and reductions in weight through commissions like the Okigbo Commission and the Danjuman's Commission.

According to Watts (2008 as cited in Ijimakinwa, *et al.*, 2015), he identifies formal interactions that exclusively take place among the governments of constituent units or states. The informal pattern occurs when the same party is dominant in both levels of government for IGR issues to be addressed within the informal structures of that party itself, rather than in more formal IGR channels.

Revenue allocation

Tom, *et al.*, (2021); Revenue allocation is conceived as the transfer of financial resources from one tier of government to another tier of government, in the same country, under pre-determined criteria or in any agreement to which all the benefiting units have subscribed.

In Ikeji's (2011 cited in Tom, *et al.*, 2021) view, revenue allocation involves manner of distributing centrally generated revenue among levels of government as well as how each level shares the allocated amount to its component parts. It connotes a practice whereby one level of government turns over a portion of the revenue it generates from taxation and other sources to another government level which is usually a lower level of government.

In Nigeria, revenue allocation refers to the practice where the centrally generated and controlled revenues are shared among federal, states and local governments as stipulated by the constitution without determining how the fund should be used. It is a statutory distribution of revenue from the Federation Account among the different levels of government (Report of the Political Bureau,1987, cited in Tom, *et al.*, 2021).

Landmass and Difficult Terrain

Introduced in January 1990, this principle suggests that states with larger landmass and challenging terrain should receive more revenue. The rationale is that development in these areas is more difficult, requiring

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more funding to address the higher costs of infrastructure projects, such as building bridges in rocky or challenging environments.

Equality of States

This principle underscores the idea that each state in the federal unit, regardless of its size and resource endowment, should have an equal share of the total revenue percentage allocated under this principle. It serves to affirm the equality, importance, and constitutional status of each state within the federation.

Minimum National Standards

This principle focuses on maintaining minimum standards in the allocation of resources among states. These standards typically pertain to areas like education, healthcare, and agriculture, with the goal of ensuring that all units reach and maintain a defined minimum level. This principle helps bridge social gaps among the federating units.

Absorptive Capacity

This principle assesses states based on their capacity to effectively utilize allocated funds. It means that funds should be directed to states that can efficiently make use of them. The assessment is typically based on the ratio of actual capital expenditure to planned capital expenditures over a set period, with the state having the highest ratio ranked first.

Minimum Responsibility of Government: This principle acknowledges that each level of government has a minimum responsibility to fulfill, and services provided to citizens by the government must not fall below a defined level. It aligns with the constitutional functions assigned to various tiers of government and reaffirms the principle of need.

Social Development Factors

This principle takes into account various social development indicators such as healthcare delivery, education, and urbanization. Primary school enrollment is often used as an indicator of social development, with education being a priority in most governments worldwide and a fundamental objective of state policies.

CHALLENGES OF REVENUE ALLOCATION IN NIGERIA

According to Iyoha, (2021); The challenges of revenue allocation in Nigeria are multifaceted and have been a source of ongoing debate and contention. Some of the key challenges include:

Non-Correspondence Problem: In an ideal situation, each level of government should be allocated adequate resources to fulfill its responsibilities. However, due to practical constraints, there is often a mismatch between spending responsibilities and the sources of revenue or taxpayers assigned to different levels of government. This problem is referred to as the non-correspondence problem. In Nigeria, major sources of revenue typically fall under the jurisdiction of the federal government, while lower levels of

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government are expected to generate internal revenue. This imbalance between assigned functions and tax powers needs to be addressed.

The unresolved issues in intergovernmental fiscal relations in the Nigerian federation include discrepancies between assigned functions and taxpayers, the principles of horizontal and vertical revenue allocation, the overreliance of states and local governments on federal sources of funding, the concentration of federal presence in the states, and the dissatisfaction with the five principles currently applied in the horizontal revenue allocation formula, which are not acceptable to all stakeholders.

Fiscal Autonomy and Independence: The question of fiscal autonomy and independence of state and local governments in a true federal system is closely linked to the alignment of government functions with revenue sources. The heavy dependence of these lower-tier governments on the Federation Account has hindered their ability to pursue their development goals, leading to unpredictable fluctuations in their financial resources. Achieving fiscal autonomy and independence requires a reallocation of revenue sources to ensure steady and predictable funding for administrative and developmental activities, reducing reliance on the unpredictable fluctuations in shares from the Federation Account.

Oil-Producing States vs. Oil-Producing Communities: The issue of true ownership of oil resources in Nigeria remains a contentious matter. Some argue that local communities directly affected by oil exploration and spillages should receive a larger share of oil revenues, rather than oil-producing states. This debate continues, and the allocation of oil revenues remains a significant concern.

Federation Account and the Derivation Fund: Clarity is needed on what constitutes the Federation Account, to which various revenue allocation formulas are applied, as well as what expenses should be funded from it. Changes in the distribution of revenue from the Federation Account over the years have resulted in fiscal imbalances. The issue of first-line charges, such as debt servicing, national projects, and special reserve accounts, must be addressed to ensure a fair and balanced allocation.

Oil-Producing Areas and the Derivation Principle: Despite the substantial contribution of crude oil to Nigeria's economy, the areas that produce oil, particularly the Niger Delta, have not experienced proportional development. The environmental devastation caused by oil exploration and exploitation has left these areas neglected, resulting in environmental degradation and poverty. The reduction of the derivation principle from 50% to 13% for crude oil compared to other resources is perceived as unjust. Reevaluating the derivation principle, especially in the context of Nigeria's democratic experiments, is essential.

These issues underscore the complexities of fiscal federalism in Nigeria and the need for reforms to ensure a more equitable and balanced distribution of resources (Omoruyi, 2000, Ikeji, 2023 cited in Iyoha, 2021).

INTER-GOVERNMENTAL RELATIONS IN THE NIGERIAN FEDERAL SYSTEM

According to Ojo, *et al.*, (2015); Intergovernmental relations in Nigeria have been characterized by reluctant cooperation and competition among the levels and arms of government (Eliagwu, 2011 cited in to Ojo *et al.*, 2015). Since the amalgamation of Nigeria in 1914, the relationship among its diverse units has been marked by tensions of different degrees of severity (as Diamond, 2001:17 cited in Ojo *et al.* 2015).

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Conflict is a common phenomenon in federal systems, and Nigeria's federation is no exception. Nigeria's Fourth Republic has witnessed unhealthy relationships among the levels of government (Ugwu, 1998 cited in Ojo *et al.*, 2015).

Some of the key challenges in intergovernmental relations in Nigeria include:

Revenue Sharing Conflicts: These conflicts revolve around issues of tax jurisdiction, revenue sharing, and fiscal transfers. The centralization of control over revenue flows by the federal government has eroded the autonomy of lower levels of government and their incentive to generate revenue (Diamond, 2001:15 cited in Ojo *et al.*, 2015).

Delays in Fund Disbursement: The delays in the disbursement of funds from the federal government to state and local governments have hindered service delivery at the local level.

Overconcentration of Political Power: There are concerns about the overconcentration of power in the federal government. Critics argue that Nigeria's federalism contains strong unitary elements, and some suggest a return to the 1963 constitution for true federalism.

Illegal Removal of Local Government Officials: Some state governors have illegally removed or suspended local government chairmen, leading to disputes and legal battles.

Constitutional Ambiguity: The constitutional status of local governments remains ambiguous and contradictory, causing confusion regarding their jurisdiction and excessive control by higher levels of government, for example, in Section 162 (6) which posited of the Joint State and Local government Account) Each State shall maintain a special account to be called "State Joint Local Government Account" into which shall be paid all allocations to the Local Government Councils of the State from the Federation Account and from the Government of the State at the control of the various state governments in Nigeria. (Ajulor and Okewale, 2011 cited in Ojo, *et al.*, 2015).

These challenges have implications for governance, equitable resource allocation, and cooperative federalism in Nigeria. Addressing these issues is essential for fostering effective governance, reducing conflicts, and promoting equitable development (Eliagwu, 2011; Ugwu, 1998 cited in Ojo, *et al.*, 2015).

THEORETICAL APPROACH

The theoretical approach employed in this study is based on a system approach as developed by David Easton (1953), which analyzes the various components of fiscal federalism and development in Nigeria. This approach views the environment as a system with interconnected parts that rely on each other to function effectively and achieve their goals. The system comprises the environment, the political system, and the output, with the environment encompassing the objective conditions and forces that generate demands and outcomes (Ikelegbe, 2006 cited in Akhere *et al.*, 2015).

Within this framework, the political activities are seen as a result of interactions between the environment, the political system, and the desired output. The allocation of resources in a nation is influenced by various political institutions, which are considered attributes of the environmental inputs. How a country allocates its resources plays a crucial role in shaping its development.

The Nigerian context, particularly regarding revenue allocation, fits into this theoretical framework. In a situation where one component faces challenges or is not functioning correctly, the other components will also be affected and may not operate at full capacity. The current fiscal federalism

RESEARCH METHODOLOGY

This study employs a qualitative research approach, primarily relying on document analysis and thematic content analysis to investigate the complexities of fiscal federalism, specifically focusing on the challenges of revenue allocation and intergovernmental interactions in Nigeria.

Research Design

To obtain reliable and verifiable data for this research, a historical descriptive approach was employed, involving data collection from various sources such as journals, textbooks, newspapers, online materials, and more. This method allowed for the analysis of historical and contemporary data to make informed projections about the future. The historical method is a systematic process of collecting and objectively assessing data related to past events. It enables researchers to gain insights into past events through the application of scientific objectivity in explaining these events. The study also made use of documentary analysis to examine secondary data sources, contributing to the overall findings. These research methods were focused on exploring the navigating fiscal federalism, with a specific emphasis on the challenges associated with revenue allocation and intergovernmental interactions in Nigeria.

DISCUSSION OF FINDINGS

The study on fiscal federalism in Nigeria has revealed that Nigeria's unique federal structure, characterized by a tripartite system comprising the federal, state, and local governments, presents both opportunities and challenges in the allocation of resources. One crucial aspect of this allocation is the distribution of revenue to local governments, which are the closest level of government to the people. However, this process is fraught with issues such as inequitable distribution, disparities in revenue generation capacities, and fiscal dependency.

The research findings emphasize that fiscal federalism in Nigeria demands a comprehensive overhaul to address these challenges effectively. The allocation of revenue must be made more equitable, ensuring that local governments receive a fair share of resources. The study also highlights the need for enhancing the revenue generation capacities of local governments to reduce their fiscal dependency on higher tiers of government.

Moreover, the research findings underscore the importance of redefining the dynamics and relationships between the federal, state, and local governments. Issues related to autonomy, overlapping responsibilities, and conflicts need to be addressed to streamline the inter-governmental interactions.

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SUMMARY AND CONCLUSION

This study delves into the realm of fiscal federalism in Nigeria, focusing on the challenges associated with revenue allocation to local governments and the interactions among the various tiers of government. Nigeria's federal structure, comprising the federal, state, and local governments, offers both opportunities and challenges for resource allocation. The allocation of revenue to local governments, which serve as the government closest to the people, is a pivotal element for effective governance and socio-economic development. However, this process is marred by issues such as inequitable distribution, variations in revenue generation capabilities, and fiscal dependence.

The research methodology relies on a comprehensive review of secondary data sources, including governmental reports, academic papers, policy documents, and statistical data. This approach allows for an in-depth exploration of past and current trends in revenue allocation, inter-governmental relationships, and the impact of policies and reforms.

Furthermore, the study investigates the intricate dynamics and relationships between the federal, state, and local governments, addressing issues such as autonomy, overlapping responsibilities, and conflicts. The findings suggest the necessity of substantial reforms to enhance the equity of revenue allocation, boost the revenue generation capacities of local governments, and streamline inter-governmental interactions.

In conclusion, this study sheds light on the intricate landscape of fiscal federalism in Nigeria and advocates for reforms aimed at achieving more equitable revenue allocation, empowering local governments, and fostering a cooperative governance system in the country.

RECOMMENDATIONS

Based on the findings presented in the paper, the following recommendations are made:

1. **Constitutional Review**: The practice of federalism is largely rooted in the constitutional grounding where all powers whether exclusive or concurrent is clearly spelt out between or amongst the levels of government in the constitution, hence, so long as section 162 is there as is, there may not be a scientific fiscal federalism in Nigeria until there is constitutional amendment.

2. **Equitable Revenue Allocation**: The Nigerian government should work towards developing a more equitable revenue allocation system, addressing issues of inequitable distribution. This could involve revising the existing revenue sharing formula to ensure a fair and balanced distribution of resources among federal, state, and local governments.

3. **Enhancing Local Revenue Generation**: Efforts should be made to enhance the revenue generation capacities of local governments. This can be achieved by providing training and support to local governments in developing revenue-generating initiatives, reducing their fiscal dependency on the federal and state levels.

4. **Streamlined Inter-Governmental Relations**: There is a need for better coordination and collaboration among the various tiers of government. Mechanisms for clearer roles and

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responsibilities, as well as conflict resolution procedures, should be established to reduce conflicts and overlaps.

5. **Autonomy for Local Governments**: Local governments should be granted more autonomy in decision-making and resource management within their areas of jurisdiction. This autonomy will empower them to address the specific needs and aspirations of their communities effectively.
6. **Reform and Policy Implementation**: Policymakers should focus on implementing the necessary reforms and policies aimed at addressing the challenges in fiscal federalism. These reforms should take into account the unique federal structure of Nigeria and aim to foster cooperative governance.
7. **Public Awareness and Participation**: Initiatives to increase public awareness and participation in the governance process, particularly at the local government level, should be encouraged. Engaging citizens in local decision-making can lead to better resource allocation and development.
8. **Regular Review of Fiscal Systems**: The Nigerian government should commit to regular reviews of its fiscal systems, ensuring they remain relevant and responsive to the changing needs and dynamics of the country.

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