ALVAN JOURNAL OF SOCIAL SCIENCES (AJSS)
FACULTY OF SOCIAL AND MANAGEMENT SCIENCES
ALVAN IKOKU FEDERAL UNIVERSITY OF EDUCATION, OWERRI
https://www-ajsspub-org.b12sites,com https://www.ajsspub2.org
E- ISSN: 3043 – 5463 ISSN: 1595 – 5842 VOLUME 2, ISSUE 2, 2025

RESEARCH ARTICLE

DECELERATION OF FISCAL FEDERALISM IN NIGERIA AND CHALLENGES OF DEVELOPMENT IN THE SUB-NATIONAL UNITS

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ABSTRACT

The paper explores the issue of deceleration of fiscal federalism and its challenges to the development of the sub-national units in Nigeria. Nigeria's quasi federalism has rather than improve, continues on a detour of retardation and this portends a grave consequence for the economic development of the sub-national entities in the country. Anchored on the theory of Fiscal Federalism, the study adopts historical-descriptive design aspect of qualitative method of data collection and content analysis, which rely on quality texts, journal articles, official documents, working papers, reports, internet sources etc., that were content-analyzed to draw valid inference. The study revealed that though the issue of fiscal federalism did not commence on a sound footing in Nigeria at the onset, it witnessed what could be referred to as its golden period in the first republic and began its persistent downward slope after the 1966 military incursion and seizure of governmental powers which tilted towards over centralization as against decentralization of fiscal powers. Also, owing to the over-bearing centralization of fiscal powers which channel all funds, particularly rents from mineral resources into the central coffers herein referred to as Federation Account, the development of sub-national units is stifled thereby defeating the very essence and tenets of true federalism. More so, as the fiscal powers of the sub-national units are brutally hamstrung by this fiscal over-centralization, the states and local governments are rendered financially impotent, forcing them to be over-reliant on the over-bearing centre for survival and sustenance. Based on the above findings, functional measures were recommended that can turn the sub-nationalities from revenue recipient and dependents to viable wealth creators.

Keywords: Fiscal federalism, development, sub-national units, first republic, military incursion.

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Received: 17/5/2025; **Revised:** 29/6/2025; **Accepted:** 8/7/2025; **Published:** 30/7/2025

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1.0. INTRODUCTION

While many countries the world over are leaning towards fiscal decentralization and devolution of powers in other to deliver public goods to their sub-national entities as a viable developmental strategy, Nigeria has continued to slide towards greater degree of contrived over-centralization of fiscal administrative mechanism. Generally speaking, fiscal federalism denotes allocation of national resources and spending to component levels of government in a federal system of government with the aim of getting more people and governance centres involved in government. This is rationalized by the perception that the central government may find it difficult to deliver quality services in an efficient manner to all the segments of the federation from the central authority simultaneously (Aigbokhan, 1999; Tanzi, 1995; Chete, 1998).

This process of decentralizing distribution of funds in a federation is also referred to as fiscal decentralization whereby each level of government (called the tier system in Nigeria) is structured according to their scope, functions and responsibilities with corresponding funds allocated for discharging those functions and responsibilities. Fiscal over centralization in Nigeria’s federalism is fraught with dismal performance of the component units in terms of real development since the 1980s, and this has aroused the curiosity of scholars on the subject matter in Nigeria’s polity (Arowolo 2011). Therefore, against the backdrop of what fiscal allocation ought to be, which is tantamount to a process by which money generated within a given federalism is shared among the component units of government, finds enormous contradiction in the case of Nigeria where the existing sharing formula is lopsided and conflict prone among the tiers of government (Athanasius, 2018). This does not allow the component units to build their capacity to develop their spheres of jurisdiction.

The issue of the over bearing nature of the Federal Government in terms of revenue appropriation and allocation is seen by scholars as one of the reasons many states in Nigeria are not financially viable. Once states do not have access to, and control of the mineral resources within its territory in line with derivation principle, they rely on the Federal Government for funding. This kills the hitherto existing healthy competition and viability of the regions during the first republic and makes the states to be financially unstable. An unstable state cannot make any sustainable development plan. In fact, it has been argued that without allowing the states to have the requisite financial autonomy, and since the central government may not be able to deliver quality services in an efficient manner to all the segments of the federation from the central authority at the same time (Aigbokhan, 1999; Tanzi, 1995; Chete, 1998).

There is bound to be less development in the federating units. This study investigates these claims to obtain a more robust position of the states in the federal arrangement in terms of the impact of lack of financial autonomy on their development. To this end, the objectives of the study are to:

i. Explore the foundations of fiscal federalism in Nigeria;
ii. Identify the effects of the military intervention on Nigeria's postcolonial fiscal federalism
iii. Establish the impact of centralized fiscal federalism on economic development of sub-nationalities in Nigeria

2.0 CONCEPTUAL FOUNDATION AND THEORETICAL FRAMEWORKS

2.1 Conceptual Clarification

Federalism

Value allocation has been the primary factor that determines attitude of the citizenry towards the affairs of the state and how they interact among themselves on any background. State and state's attitude over value allocation in Nigeria have created unnecessary identity consciousness and alignment among Nigerians (Nwagbo &Abaneme, 2019). Understanding federalism as a larger concept will help facilitate the understanding of fiscal federalism because fiscal federalism is an integral aspect of federalism in which it operates. Federalism refers to a political system where there are at least two levels of government. In such cases, there is juxtaposition of two levels of power, the central government otherwise called the federal government and other states labeled variously as states, regions, republics, cantons or unions (Ajayi, 1997).

Federalism is derived from the Latin word "foedus" meaning covenant; a political concept a group of members are bound together by covenant with a governing representative head. The term is also used to describe a system of the government in which sovereignty is constitutionally divided between a central governing authority and constitutional political units (like states or provinces); thus the power to govern is shared between national state governments, creating what is often called a federation (Akindele and Olaopa, 2002). It is a political theory that is divergent in concept, varied in ecology and dynamic in practice. Federalism operates best in a multi-ethnic nationality state like Nigeria where power and responsibilities are shared between a federal government and component units in such a way that each unit, including the central authority exists as a government separately and independently from others.

The highlighted separate, but mutually reinforcing entities have control over persons and properties within its territorial area of jurisdiction coupled with a will of its own apparatus for the conduct of affairs and with an authority in some matters exclusive of others (Sagay, 2008). In analyzing this purview, Asobie's (1985:26) identified two broad areas of cooperation in federalism. The *first* relates to capacity of citizens, as individuals and groups, to relate to each other federally, that is as partners respectful of each other's integrity while cooperating for the common good beyond the political realm; while the *second* area views federalism as a social phenomenon which emphasizes the existence of essentially permanent religious, ethnic, cultural or social groups, camps or pillars around which a polity is organized.

Other scholars such as Hague and Harrop (2001) see it as the sharing of legal sovereignty between the federal government and the constituent states with specific functions allocated to each. Ricardo (1993) and Onwe (2011) shares in the in the view that federalism as a process without fixed form and constantly fluid based on its evolutionary trend in different climes, because its formation lies in the kind of compromise made by diversities for the common good of all concerned units. Grodzius quoted in Gamble and Payne (1996, p.124) sees federalism from a legalistic point of view; a legal relationship in which power is distributed between the central and component units, at least two tiers of government. Summarizing the concept of federalism, Kapucu (2023) and Tamuno (2004) are in agreement that it as a mode of political organization that unites separate states or other polities within an overarching political system in a way that allows each to maintain its own integrity. It does this by making and implementing some basic policies via negotiation in such a way that all the members can share in making and executing decisions, which in turn serve as a means for safeguarding individual and local liberties.

Fiscal Federalism

Fiscal federalism is part of broader public finance discipline. The concept was brought to the limelight by a German-born American economist, Richard Musgrave in 1959. Fiscal federalism refers to the division of governmental functions and financial relations among levels of government. Initially, the issue of federalism was in the domain of economic studies and of scholars of public finance, in particular, whose investigations referred to the phenomenon in terms of federal finance (Musgrave, 1959 cited in Valdesalici, 2020). Later on, the expression fiscal federalism appeared in the literature, and was referred to as the "assignment of functions to different levels of government and the appropriate fiscal instruments for carrying out these functions" (Oates, 1999, p. 1121).The initial focus on fiscal federalism was on the debate on the need to grant certain financial independence to the federal level (Valdesalici, 2020), however when federations such as Belgium and Spain referred to as "holding-together federations" and those systems resulting from admixture of aggregative and devolutionary processes such as India and Canada were considered, research on fiscal federalism took cognizance of the margin of autonomy conferred upon the subnational levels of government (Musgrave, 1959).

Kapucu (2023) identified the following benefits of fiscal decentralization: regional and local differences can be taken into account; lower planning and administrative costs; competition among local governments favour organizational and political innovations; and more efficient politics as citizens have more influence. Fiscal federalism also has some weaknesses, which include: lack of accountability of state and local governments to constituents; non-availability

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E- ISSN: 3043 – 5463 ISSN: 1595 – 5842 VOLUME 2, ISSUE 2, 2025

of qualified staff; the possibility for people to choose where to reside; a certain degree of independence of the local governments from the national government; and unavailability of infrastructure of public expenditure at the local level (Kapucu, 2024).

For Ajibola (2008) and Ozor (2004) fiscal federalism denotes an intergovernmental fiscal relation defining functions and responsibilities among the various tiers of government as well as the financial resources to achieve stated objectives as it is in Nigeria where the federal, state and local governments have the joint responsibility of generating and expending revenue to carry on government responsibilities. For instance, in Nigeria certain taxes, the mining rents, and oil royalties are paid into the common pool that is shared amongst the units of the federation. However, in Wheare's (1985) as it obtains in Nigeria, where a state authority depends on the federal government for grants and subsidies, they are no longer coordinate with the federal government, but subordinate to it and this financial subordination makes an end of federalism, irrespective of how careful the legal forms may be preserved. It follows, therefore, that both states and federal authorities in a federation must share power as provided in the constitution, with express provision for each to have access to and power to control its own financial resources; as well as each must the power to tax and to borrow for the financing of its own services.

In view of the underlying imperatives of fiscal federalism, Okoli (2004) maintained that the principle of fiscal autonomy and fiscal integrity is a sine qua non for the survival and continued existence of a truly federal system of government. Though federal systems differ, there are certain characteristics that justify their being referred to as a federal system. These include: The federal relationship and the sub-national entities, which in Nigeria is known as the three-tier system: Federal, state and Local governments. Thus, Ossisioma and Chukwuemeka (2007) state that federation implies the existence of more than one level of government in one country each with different expenditure responsibilities and taxing powers. Nigeria is a federation consisting of states and federal capital territory, federal government, 36 states and 774 local governments. The fiscal arrangement among the different tiers of government in the federal structure is often referred to as fiscal federalism; in other types of political structure, it is known as inter-tier or intergovernmental fiscal relations.

Okoro (2006) contends that the capacity of the federal, provincial and territorial governments to assume their responsibilities hinges on the balance between decentralization of revenues and decentralization of government spending. The extent of decentralization is tantamount to the degree of independent decision making by the various levels of government in the provision of social and economic services. How this plays out in Nigeria is examined in subsequent sections.

Development

Development is a multidimensional concept and appears elusive to define. Scholars have conceived it differently as denoting growth, change or planned growth (Okpata, 2004) progressive increase in skills and capacity to gain greater freedom for action which is expressed in creativity for the attainment of both material and psychological well-being of the man (Nwali and Nkwede, 2010). This definition is unique because it touches all aspects of human being and the society and societal development. Above conceptualization of development corroborates that of Rodney (1969) which is deemed to be a many-sided process. At the level of the individual, it implies increase skill and capacity, greater freedom, creativity, self-discipline, responsibility and material well- being while development at the societal level, implies an increasing capacity to regulate both internal and external relationships. Thus, Rodney argues that development is beyond mere economic issue, but an overall social process (Rodney cited in Rotimi, 2013).

Todaro (1985) also reiterates the multi-dimensional view of development, which he sees as a process involving the organization and re-orientation of the entire economic and social system, income improvement, radical changes in institutional, social and administrative structures, popular attitudes, customs and beliefs. This informs the study's focus on the interplay of fiscal federalism and development of subnational units in Nigeria.

2.2 Theoretical Framework: Theory of Fiscal Federalism

The Theory of Fiscal Federalism was originally developed by Musgrave (1959) followed by Oates (1972). They were much concerned with sharing of functions and financial resources among levels of government in a federal state in a stipulated and prescribed manner. Musgrave (1959) describes a federal system of government as a state that can absorb diverse challenges confronting the federating units in terms of ensuring balance and stability. This helps to overcome such disruptions as uneven distribution of wealth and unavailability of resources. By so doing, Musgrave (1959) canvasses a descending order of financial management of revenues in a federation from federal to state and to local authorities based on needs.

Lending credence to Musgrave, Bello-Imam (1990) asserts that an intergovernmental relation is hinged on finance, because each governmental level can comfortably function effectively with virile financial base. In essence, the dominant objective of fiscal federalism resides with assigning fit and proper functions and responsibilities to statutorily recognized levels of government with commensurate financial empowerment for discharging their assigned functions and responsibilities. Nevertheless, there are invaluable analytical and policy variations between local metropolitan challenges and federal-state problems as well as between tight federal states like Germany and loose federal states such as Canada while the

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E- ISSN: 3043 – 5463 ISSN: 1595 – 5842 VOLUME 2, ISSUE 2, 2025

United States is found somewhere in between. The existence of these variations is partly due to differing nature and how rigid political institutions impose constraints on them.

Put differently, the Theory of Fiscal Federalism operates on the assumption that going by the income disparity among the federating units, the nature of flexibility of a federal system has the rare capacity to handle contentious issues such as just and equitable distribution of income, efficient and effective allocation of resources, and economic stability. In Musgrave's argument, he contended that the central government should be saddled with the responsibility of stabilizing the economy in addition to redistributing income while the responsibility for allocation of resources should reside with the state and local governments (Musgrave, 1959).

Nigeria's centrally-dominated fiscal system could draw from the theory of fiscal federalism, which elucidates the ideal form of fiscal federalism in order to ensure macroeconomic stability as well as economic viability, growth, development and sustainability. In fact, the theory of fiscal federalism exposes the weaknesses and contours of Nigeria's peculiar type of fiscal federalism which tends to stifle growth and economic viability of the component units thereby compelling these component units (states and local governments or tiers of government) to depend on the paltry revenue allocations from the over-laden centre. Development could therefore, be learnt since it is primarily a product of careful design, effective resource mobilization and collaboration between the different tiers of government on one hand, and between the people at the grassroots and their leaders on the other hand based on the principle of openness to, and genuine efforts towards change (Akume, 2012).

3.0 MATERIALS AND METHODS

The study adopts a qualitative research method embedded in historical-descriptive design, which is a veritable analytical tool that provides the latitude to critically evaluate state systems and structures, in this case how the Nigerian federal system emerged and the trajectories of fiscal patterns of deceleration of the erstwhile derivation principles leading to greater fiscal centralization in place of fiscal decentralization synonymous with federal systems. Thus, historical design is quite suitable to this discourse that delves into the past, analyzes the present and providing insight into the future drive towards Nigerian fiscal autonomy or otherwise by rummaging through quantum of qualitative data, which include thorough examination of array of written literature and documents associated with the phenomena under study. Thus, scholarly textbooks, print media, journal articles, seminar/workshop papers, working papers, official documents, previous field research works were consulted and content-analyzed in accordance with the set objectives to draw valid and plausible results and inference for the study.

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4.0 DISCOURSES

4.1 Foundations of Nigeria's Fiscal Federalism

The issues surrounding Nigerian fiscal federalism is very peculiar and has a historical foundation which is traced to the first allocation formula of 1946. Below is a brief account of the successive allocation formula prior to the military incursion.

Phillipson Commission of 1946

Spurred by the Richards Constitution, Phillipson Commission of 1946 laid emphasis on decentralization of the country into three regions. Sir Sydney Phillipson's report recommended the 'principles of derivation and even progress' as key determinants of federally collected revenue due to each region (Ikeji, 2011). However, due to some difficulties in its implementation, the need for improvement resulted in another commission.

The Hicks-Phillipson Commission (1951)

The Hicks-Phillipson Commission's Report recommended that Regions should be granted power to raise, regulate and appropriate certain items of revenue resulting to the introduction of the 'principle of independent revenue'. This was aimed at creating regional autonomy, proper financial responsibility and efficiency of administration (Ikeji, 2011), based on derivation, need and national interest (Nnoli, 1978; Adedeji, 1969).

The Chick Commission (1953)

Sir Louis Chick Commission was appointed to craft a suitable revenue sharing for the proposed Lyttleton Constitution which could guarantee greater degree of regional autonomy. Though the regions gained enormous autonomy, the power to impose tax and vary the rates of taxes tilted more towards the Federal Government (Ikeji, 2011; Ewetan, 2012). However, there were inherent weaknesses in the administration of the Chick Commission which includes: allowing the federal government the control of independent revenues without channeling some funds directly to the appropriate regions (Sarumi, 1982).

The Raisman Commission (1958)

The Sir Jeremy Raisman Commission recommended regional retention of independent revenues to facilitate a higher degree of fiscal autonomy for the regions with emphasis on the principle of derivation. However, mining rents and royalties were reduced from 100% to the regions of origin to 50% while the Federal Government received 20% and 30% paid into a Joint account of all the regions referred to as the Distributable Pool Account (DPA) (Ikeji, 2011) based on the principles of need, minimum responsibilities and balanced development of the federation (Sarumi, 1982).

The Binns Commission – 1964:

The main focus of the Binns Fiscal Commission under section 164 of the Independence Constitution was on equitable allocation of DPA. It recommended an increase in the share of revenue in the DPA from 30% to 35% (Sarumi, 1982). The foregoing is an indication that the

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Binns Commission guided the first republic fiscal administration in Nigeria marked by more financial autonomy and derivation to the component regions. This enabled the respective regional governments to pilot development which fostered a somewhat healthy competition among the regions on account of development (Adamolekun 2005, pp.384–385).. We could say that the first republic was the eldorado of better fiscal federalism in Nigeria's political history.

In a nutshell, the tripartite principles of fiscal federalism between 1946 to mid-1960s were derivation, need and fiscal autonomy (Abubakar, 1986 cited in Akinola and Adesopo, 2011). Back then revenues from cocoa (in the West) and groundnut (in the North) were particularly robust. The derivation principle, however, suffered derogation, thus leading to a sharp decline from 100 percent in 1953 to 50 percent in 1960 (Anyanwu, 1997:190; Sagay, 2001 & Rapu, 2006:13).

4.2 Military Intervention and its Effects on Nigeria's Post-independence Fiscal Federalism

The military incursion in Nigeria's politics in 1966 diminished the hitherto existing fiscal decentralization before it. Recall that earlier revenue allocation principles placed emphasis on robust fiscal autonomy to the regions until the various military regimes began an upswing towards greater degree of centralization beginning with the Dina Interim Revenue Allocation Committee recommendations. From then revenue accruing from derivation plummeted, but fluctuated from 45 percent in 1969 to 20 percent in 1975, 1.5 percent in 1982, 1.0 percent in 1990, 3.0 percent in 1992 and the current 13 percent provided in section 162 (2) of the 1999 Constitution (Anyanwu, 1997,p.190; Sagay, 2001; Rapu, 2006, p.13). This shows deliberate suppression of the derivation principle, essentially with the discovery of crude oil (Okilo, 1980 cited in Akinola and Adesopo, 2011). Subsequent allocation formulae exposes how centralized military command structure decelerated the prevailing fiscal decentralization in the first republic.

The Dina Interim Revenue Allocation Committee - 1968-69

The Dina Committee proposed the establishment of a uniform income tax for the whole country as well as15% of the mining rents in on-shore operation to the federal government, 5% to special grants, and 10% derivation to the state of origin while a whopping 70% goes to the DPA. The guiding principles of Dina Commission were, national minimum standards, balanced development in the allocation of the state's joint account and basic need (Arowolo, 2011). However, given that various parts of the country were opposed to its recommendations (Sarumi, 1982), the military government replaced with Decree 13 of 1970, which stipulated that the DPA should be distributed on the basis of population and equality. For example, 50% of the pool should be distributed on the basis of equality while the remaining 50% should be distributed on account of population (Ewetan 2011; Sarumi, 1982).

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The Aboyade Technical Committee1977

Though Aboyade Commission was the first to recommend the inclusion of local government in the statutory share of the federal revenue as a tier of government, it gave the federal government a fixed percentage share. The recommendation of the Aboyade Committee dealt a devastating blow to fiscal federalism by recommending the removal of the principle of derivation from the revenue sharing system (Sarumi, 1982). The vertical allocation recommended by the Committee showed that the federal government, states, local government and special grants were to receive 57%, 30%, 10% and 3% respectively. The key features of the Committee's report were accepted by then military government, with some adjustments, however, the newly formed civilian government of 1979 rejected the report because it appeared too technical leading to the constitution of the Okigbo Commission of 1980 (RMFAC, 2022).

The Okigbo Commission – 1980

The Okigbo Commission retained the vertical allocation formula in which the federal government was to receive 53%, followed by states 30%, local government 10%, and special funds 7% (RMAFC, 2022). It could be deduced that the Commission continued with previous formula having failed to include derivation in sharing the Distributable Pool Account. However, after some modification, the government accepted the Commission's recommendations. Following protests and protracted court actions by the states against the Federal Government seeking the nullification of the1981 Revenue Allocation Act, the Federal Government made further amendments to the Act by allowing a paltry 3.5% of the DPA to be shared on the basis of derivation (Report of the Presidential Commission on Revenue Allocation, 1980).

The subsequent allocation formula continued on the path of centralized fiscal federalism except for minor adjustments revolving around either marginal increase in allocations to the states or vice versa and paltry increase or outright decrease on derivation for the oil producing areas since oil became the mainstay of the Nigerian economy. For instance, the 1984 Allocation of Revenue Act modified the sharing formula as follows: federal government 50 per cent; states, 30 per cent; local governments, 15 per cent and oil producing areas and ecological fund, 5.0 per cent (Ewetan, 2011, 102). The Danjuma Commission of 1988 recommended Federal government (50%), States (30%), Local Government (15%), and Special Fund (5%) (Arowolo 2011:10).

There was a marked departure from the ad-hoc revenue allocation arrangement with the establishment of the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) via Decree No. 49 of 1989 and amended via Decree 98 of 1993 (The Presidency RMAFC, 2024). The RMAFC recommendation in 1992 which allocated 48.5% to the Federal Government (FG), 24% to the states, 20% to the LGAS and 7.5% for the special funds, remained in use until the onset of the civilian administration of President Olusegun Obasanjo.

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The attempt to modify this formula was countered by a Supreme verdict in April 2002 which voided provision of Special Funds in revenue allocation formula. Following the court action, President Obasanjo came up with an Executive Order in May 2002 and modified the allocation formula that provided 56% to the FG, 24%, and 20% to the states and LGAs respectively. Again, in July 2002 President Obasanjo modified the allocation with another Executive Order which gave the FG 54.68%, states 24.72% and the LGAs 20.60%. In March 2004, another Executive Order was issued and modified the allocation by increasing the state allocation to 26.72% and decreasing that of the FG to 52.68%. By 2018, the FG still continues to take the largest proportion of 52.68% of the Federation Account leaving just 26.72% and 20.60% to the states and the LGAs (Udoh, 2019).

4.3 Impact of Centralized Fiscal Federalism on Economic Development of Sub-national Units

In comparative terms, prior to military incursion in Nigeria's political arena, there was a high degree of decentralized fiscal federalism on the basis of derivation. This propelled regional productivity, "revenue-oriented principle" of fiscal federalism and development. As at then the different sectors of the regional economy such as agriculture, coal, tin, columbite, other mineral resources and the industrial sector of the thrived. However, since after the military incursion, the central government foisted the centralized fiscal regime which shifted the "revenue-oriented revenue of principle" to an "expenditure-oriented principle" of revenue allocation or revenue sharing formula. This has resulted in the demise of productive sectors of the economy in the states (formerly regions), and poor economic outlook (Bartleby, 2022).

The centralized fiscal system in Nigeria has grossly limited the capacity of the component states to generate revenue, because it compels the states to rely completely on the monthly allocation from the federation account. A major implication of this revenue allocation dependence on the federal government is that it contributes to a large extent to incapacitate these states and local governments from providing the requisite public goods that can promote economic growth and sustainable development. The federal government appropriates the lion's share of the centrally collected revenue and leaves the states and local governments with limited resources that are not commensurate with their enormous statutory functions (Bartleby.com, 2022).

The present revenue sharing formula has succeeded in making the federal government overwhelmingly strong and dominant rendering the states weaker and heavily dependent on the centre as well as incapacitated to chart the course of sustainable development without federal assistance. For example, the component states depend almost entirely on the centre for security, finance, roads, schools, health facilities, power, industries etc. The situation is so debilitating to the extent that when there are delays in releasing funds from the federation account due to the states, the states cannot pay salaries nonetheless executing other developmental programmes (Nkwede, 2014). The same scenario sets in during the last

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economic recession, it took the federal bailout funds for the states to pay salaries. Almost all the states of the federation received what was known as the Salary Bailout Facility (SBF) in 2016 to cushion fiscal pressures during the recent economic recession (Ekanem, 2024). At this period the states and ocal government coild not fulfill their fiscal responsibilities creating more unemployment, poverty and crimes etc. (Tom & Ataide, 2021)

In all its ramifications, Nigeria fiscal federalism has a negative impact on Nigeria fiscal development and by implication stunted economic development. In other words, because the country adopted unsuitable form of fiscal federalism that could not facilitate development and growth of its component units, the stunted development is attributable to the unhealthy fiscal decentralization that could not create enabling environment for development at the sub-national levels (Abada et al., 2022). Corroborating the above statement of fact, Eme (2013) argues that the functioning of fiscal federalism in Nigeria has apparently derogated national development due to fiscal imbalance and over-reliance on the central government, occasioned by the inability of the constituent units to muster enough resources to match their expenditure needs and responsibilities (Babalola, 2015).

The original idea of fiscal federalism is to ensure some degree of autonomy for the component units of the federation, however, since the reign of military take-over of regimes, the fiscal authority has been usurped by the federal government to the chagrin of the states. This explains why the Abayode Committee (1977) and Okigbo Commission (1980) since after military incursion in politics de-emphasized the derivation principle in the revenue allocation (Olowononi, 2004).

The high unitary tendencies are however questioned since Nigeria adopted a federal rather than a unitary system of government. Prior to the incursion of the military and its centralization technique, the regional governments in the first republic were almost fiscally self-independent from 1954 to 1966. This has remained a huge fact when we take into cognizance miniscule percentage of independent revenues in the states. The regional governments were fiscally very powerful than the states are in the present. The trend changed since 1967 with creation of twelve states which were increased to nineteen in 1976, twenty-one in 1987, thirty in 1991 and thirty-six in 1996. As more states were created, the tax base of each state diminished. Besides, the rapidly growing sources of federal revenue such as petroleum profit tax, mining rents and royalties, company income tax, customs and excise duties contributed significantly in the reversal of the trend. Various constraints which impeded the raising of more internal revenues within the states also contributed significantly to this reversal. For example, the federal government either took over or controlled important taxes previously controlled by the regional governments. The marketing boards were taken over and the export duties accruing to the states were abolished. Personal income tax, the largest tax of the states came under the control of the federal government since 1975. The rates have not only been made uniform but have been continuously reduced since 1986 to cushion the effects of the structural adjustment programme. Besides, the tax allowances have been generously increased, thus reducing the revenue accruing to the state governments.

In 1994, the federal government abolished the sales tax and introduced Value-Added Tax in its place. The tax is made uniform throughout the country and collected by the federal government. These serious incursions into the state rights have made the states fiscally dependent on the federally collected revenue. The seriousness of the internal revenue situation is underscored by the fact that between 1991 and 1995 only Lagos State was able to raise above fifty per cent of its current revenue internally (Olowononi, 2004).

The current revenue allocation in which bulk of the state and local government sources of revenue are external from the federal government put them in precarious financial position where they are unable to provide essential public services. The statutory responsibilities of the states can be found in the concurrent and exclusive lists of both 1979 and 1999 Constitutions of the Federal Republic of Nigeria. Among them are economic, social, health-care, water supply, agricultural development, regional planning etc. The functions of the local governments on the other hand, include the provision and maintenance of primary schools, refuse disposal, markets, health centres, fire services, roads etc. (Olowononi, 2004).

Given the structure of the Nigerian economy, the state and local governments became heavily dependent on the federally collected revenues. However, there is no doubt that revenues allocated statutorily to the state governments have not fostered any sense of financial responsibility on the part of the state and local governments as they have increasingly become inefficient in the use of the meagre funds received from the federation account allocation. These governments are prompted to spend on questionable projects. Besides, the revenue allocation formula has not provided sufficient incentives to these governments to fully exploit their own sources of revenue. In fact, they have found it more rewarding to obtain larger transfers from the federally collected revenue rather than attempting to generate more revenues internally. This part of the problems created by the Nigerian version of skewed federalism (Olowononi, 2004).

Given the above scenario, the expenditures to which the state and local governments are committed now far exceed their revenues. Thus, while states and local governments revenue showed little growth potential, their expenditures express high growth potential with ever rising imbalance (Olowononi, 2004). This is the bane of development in Nigeria's sub-national units as funds are far less than the needs of the state since the military incursion into Nigeria's political arena. This situation has continued because the military drafted both the 1979 and 1999 constitutions, which has been scarcely reviewed to make significant amendments that could foster true federalism in place of the seeming uni-federalism as practiced in Nigeria.

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While it is true that the net allocation to the thirty states between May 29, 1999 and November 2003 in Nigeria, approximate over two trillion naira, it is instructive to note that the increment in allocation to states has not provided the requisite impetus that could drive development and growth at the state level. The revenue increment over the years has only further created an avenue for most of the state governors to loot their treasury. While the revenue allocation has not led to any meaningful development, it is also discernible that the Federal Government is taking more than it can chew (Arowolo, 2011; Owolabi, 2011).

The current over-centralized fiscal administration in Nigeria inevitably encourages parasitic governance in which states appear to be economically dormant and waiting endlessly hand in cap for the monthly ritual of allocation from the federation account. The implication of this is that while it limits the capacity of states to provide public goods needed to promote and sustain governance, the states on their own have become indolent in seeking viable options for Internally Generated Revenue (IGR) of each state, thus making them to be perpetually dependent on the allocation from the centre (Arowolo, 2011). Thus, the vibrancy, initiatives and innovative governance which were noticeable amongst the regional governments during the first republic is lacking in the present sub-national units. The issue of development plans and sustainable development are hardly heard in the country in the present dispensation. The central government on its part seems to encourage this profligacy in that as it appropriates and concentrates too much revenue at its disposal, it lacks a basic plan for the transformation of resources into concrete developments. This also explains the reasons for the characterization of politics in Nigeria as a 'do or die' phenomenon (Arowolo, 2011). Thus, the ghost of over-centralization of revenue at the centre has contributed to a very great extent in stifling development in the sub-national units of the country.

5.0. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

The study explored the effects of the prevalent fiscal federalism on economic development of the sub-national units in the country. The major problem of this study is the issue of the over bearing nature of the Federal Government since the incursion of the military government into the politics of the country in terms of revenue appropriation and allocation as one of the reasons many states and local governments in Nigeria are not financially viable. Three specific objectives were raised to guide the study, which were set to: explore the foundations of fiscal federalism in Nigeria; identify the effects of the military intervention on Nigeria's postcolonial fiscal federalism, and establish the impact of centralized fiscal federalism on economic development of sub-nationalities in Nigeria.

The study was anchored on the theory of Fiscal Federalism while adopting historical-descriptive design aspect of qualitative method of data collection and content analysis, which

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rely on quality texts, journal articles, official documents, working papers, conference and workshop reports. The study concludes that:

- Historically speaking, from the foundation, composition, and operation of federal system in Nigeria, there was a higher degree of fiscal autonomy in the first republic before the advent of military regimes in Nigeria.
- Since the advent of military regimes and their contrived constitutions, fiscal federalism has tilted more to revenue sharing formula by the central government going by the various revenue sharing formulas during this period.
- Since after the 1966 military intervention in governance, the fiscal federalism in Nigeria has been characterized by usurpation of fiscal powers by the Federal government and jettisoning of derivation principles, which hitherto gave the regions a greater level of financial autonomy and promoted healthy competition amongst the regional governments prior to the military regimes.
- The post-military revenue allocation or sharing formula stifles the socio-economic development at the sub-national levels.
- Thus, the centralization of revenue collection and allocation by the Federal Government blocks development due to: over reliance of sub-units on the over-bearing centre; non-viability of states, unhealthy competition for access to the national coffers, corruption and misappropriation of investable funds with the erroneous assurance of regular flow of funds from the Federation Account.

5.2. Recommendations

Based on the findings discussed, this study recommends as following.

1. The principle of fiscal needs should be given a dominant weight in the future revenue allocation system. The need for this is due to the fact that one of the biggest problems facing the country is the imbalance in economic development. Consequently, the revenue allocation system must be used to address the problem.
2. The power of the federal government to vary the proportion of the federally collected revenue which goes to the federation account must be checked. This power has made nonsense of the revenue allocation formula among federal, state and local governments.
3. There is need to reverse the collection the Value-Added Tax to the State governments. The states should be allowed to administer the Value-Added Tax.
4. An important tax which is yet to be efficiently utilized is the property tax. The important function for the tax beside revenue generation is that of optimal utilization of property, some of which are currently either under-utilized or not utilized at all.
5. There is the urgent need for constitutional review especially as it relates to federalism. As it is, the Federal Government enjoys unlimited power and too many responsibilities in the exclusive legislative list. The constitution should be amended to

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divest the federal government of some of its powers that are becoming increasingly alien in modern day federal practices.

6. Given the fact that the current revenue sharing formula encourages laziness and idleness as states rely heavily on the federal allocation - a situation that makes most states, perhaps, excluding Lagos, parasitic in nature, there is need to revert back to the full-blown principle of derivation principle of derivation, because it can spur the component states to work harder to contribute maximally to the Federation Account.

Competing Interest

The authors have declared that no conflicting interest exist in this paper.

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