

Research Article

# Nigerian Development Challenges, Service Delivery, and Fiscal Federalism : An Examination of State and Local Government Roles and Remedial Action

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**Abstract:** The study looks at fiscal federalism, which is the distribution of resources between federating entities so that they can carry out their constitutional duties. The goal of this study was to identify the fundamental imperatives of fiscal federalism for the advancement of the country. In Nigeria's new democratic environment, the relative roles of the federal government, state governments, and local government authority (LGAs) in providing public services have become one of the most crucial subjects of candid and heated discussion. Federalism, fiscal federalism, and development were conceptually explained from the outset, and it became clear that the principles of fiscal autonomy and integrity are critical to the survival and ongoing existence of a properly federating form of government. In order to ascertain how the federal arrangements affect the provision of basic services in four crucial areas, the analysis will make use of fieldwork conducted in six states and twelve LGAs. primary health care, primary education, clean water and sanitation, and local roads that connect communities to marketplaces, schools, and medical facilities. The paper, which was based on Buchan Fiscal Residuum Theory, attempted to accomplish the study's goal by balancing the value of the public services returned to individuals with the payments paid. According to the article, the conflicting problems and difficulties of fiscal federalism may manifest as a misalignment between the functions of the different levels of government and the sources of money. According to the paper's conclusion and recommendations, it is important to make sure that revenue allocation encourages state and local governments to increase internal revenue generation rather than relying only on funding from In order to clearly define the duties to be carried out by each level of government, the federation account and intergovernmental relations issues should be examined and respected.

**Keywords:** Challenges Development, Federalism, Local Government, Service Delivery.

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## 1. Overview

The question of whether the current practice of taking responsibility for expenditures and carrying them out is such that a simple change in resource allocation will accomplish the intended goal of providing better services to the majority of Nigerians is conspicuously lacking in discussion. How well the various levels of government employ their current resources to carry out their duties is a genuine concern that has not gotten much attention up to this point. Indeed, one may argue that in the Nigerian context, With total revenues that averaged more than 5% of GDP between 1990 and 1999 and more than 10% of GDP following the

1999 spike in oil prices, states and LGAs get a significant amount of resources. The actual operation of the federal system in providing essential services will be the main topic of this report, along with whether there is room to realign administrative and financial duties in order to increase performance and accountability. The goal of the analysis is to offer some well-informed conjecture regarding the possible results of altering revenue shares without reevaluating how spending responsibilities are divided. Therefore, it seeks to support the nation's national conversation process in order to come to a consensus on which tier is most qualified to carry out what financial obligations and how they have to be funded Sulaiman, (2018).

Federalism, also referred to as the federal system, is a public sector with both centralized and decentralized levels of decision-making. Decisions about public service provision and development at each level are primarily based on the needs of the people living in the prospective jurisdiction. To ascertain the effect of the federal arrangements on basic service delivery in four crucial areas primary education, primary health care, potable water and sanitation, and local roads connecting communities to schools, health facilities, markets, etc.—the analysis will rely on fieldwork conducted in six states and twelve LGAs. These areas are all regularly identified by the impoverished in consultation with One of the most crucial services for their wellbeing is exercise. It is appropriate to examine how the federal system functions in practice and what institutional structures would allow for improved performance in the delivery of these vital services, as these are also services for which the states and local governments are primarily responsible. As a result, the broad insights obtained from this effort can be applied to different industries and services. Ajiteru (2023).

Federalism, fiscal federalism, and development as they relate to coexisting in the same environment have all been attempted to be conceptualized in this study. In order to explain phenomena related to fiscal federalism and Nigeria's development, the study used evaluation and assessment methods and secondary data. The theory of the Buchan Fiscal Residuum was utilized to clarify and Examine topics pertaining to fiscal federalism, federalism, and the difficulties it presents. Lastly, the study will end with remedial and policy alternatives. Abalaka (2018).

## 2. Techniques

In order to explain the persistent disputes that underpin fiscal federalism and the difficulty of both human and infrastructure development in Nigeria, the study used evaluative and assessment methods along with secondary data (Sulaiman, 2018). The techniques sought to expose the several revenue concepts in the Nigerian federal system, including the derivation principle, state equality, and demographic strength. These techniques allowed for an appreciation of the different political movements and calls for the revision of the budgetary formula for the equitable growth of all states. But keep in mind that given the constrained parameters of this paper, Although not all of the fiscal federalism's tenets have been thoroughly examined and understood, they can aid in its analysis and justification, particularly when it comes to national growth. Abalaka (2023).

In light of the aforementioned, the following research questions must be answered in order to meet the study's goals:

What requirements does fiscal federalism have for Nigeria's progress?

What are Nigeria's fiscal federalism's main obstacles?

What is the current state of intergovernmental fiscal ties in Nigeria?

What prospects does revenue distribution offer for Nigerian development?

## 3. Objectives

This paper's main goal is to analyze and appraise the ways in which Nigerian development has been influenced by fiscal federalism. Other particular goals are:

To evaluate the fundamental requirements of fiscal federalism for the advancement of Nigeria.

To assess Nigeria's fiscal federalism's main obstacles.

To investigate Nigeria's handling of intergovernmental relations.

To use revenue distribution to gauge the nation's prospects for both infrastructure and human development.

#### 4. Foundation of Concepts

The conceptualization of federalism, fiscal federalism, and development is the main goal of this study section. Understanding these ideas is thought to aid in exposing the difficulties or other issues with Nigeria's fiscal federalism, particularly with regard to national development. Ajiteru (2023).

#### 5. Historical Background

Nigeria's current fiscal federalism system is a holdover from military dictatorship.

A quick look at the background of Based alternatingly on the centripetal influences of military regimes, national interest, and derivation principles, Nigerian federalism exhibits significant turning points in federal and regional fiscal relations. However, the derivation principle was changed in the interest of national unity when the country gained independence in 1960, and the federal system of government started to be adopted to meet the many political and social demands of a multiethnic state. Since 1966, income administration and collection have centralized under successive military administrations, with the military government deciding how to allocate funds regionally. At the same time, government operations and spending duties were consolidated, and the federal government took on the role of the catalyst for social and economic advancement. This figure has nearly doubled over the 1990s decade. to the present 36 states and 774 municipalities, all of which were established during the military era. Therefore, it would seem that the current federal structure is a direct legacy of military rule, with the risk that states and LGAs were established more as central agents and possibly for the primary goal of allocating national resources politically rather than for the efficient provision of public services. Abalaka (2023).

Strong political figures have surfaced at the state level since General Abacha's passing and the inauguration of democratic governance in 1999, calling for constitutional protections for their fiscal independence. Even while the chairmen are demanding a larger portion of resources, the LGAs' standing is a little less clear. There is a great deal of mistrust at higher levels regarding their competency and accountability, despite the fact that they are grassroots groups that are most responsive to the public. The designers of the 1999 Constitution were tasked with establishing institutions and resolving disagreements so that the federal system left over from the military rule could function effectively and responsibly in a democratic setting (Ajiteru, 2023).

##### 5.1 Constitutional Prescriptions of 1999

According to the 1999 Constitution, the Second and Fourth Schedules outline the existing division of duties. The Second Schedule's exclusive legislative list, which only the federal government may act upon, is included in Part I, while Part II contains the concurrent legislative list, which both the federal and state governments may act upon act; the list of duties performed by Local Government Councils is provided in the Fourth Schedule. Therefore, in a strict sense, the Constitution merely specifies the topics on which the Federal Government of Nigeria and the states may enact laws, not the list of duties to be carried out by them (as it does for the Local Government Councils). Nonetheless, Sulaiman (2023) states that these legislative lists serve as the foundation for additional legal decrees and sector policy reports that specify the precise spending obligations of the various levels of government.

The Federal Government of Nigeria's sole duties, which include issues of national importance including defense, foreign policy, regulation, and monetary policy, are generally in line with accepted international norms. The duty of providing services in the regions

states and local government authorities in the areas of education, health, infrastructure, agriculture, and industry. The corresponding assignments appear to be based on the consideration of interjurisdictional spillover effects and economies of scale, though the official literature makes no explicit reference to the underlying principles. Table 1 lists the various levels of government's expenditure responsibility. Ajiteru (2023).

##### 5.2 Uncertainty surrounding local administrations

The 1999 Constitution is also a little unclear on the independence of local governments from the power of the state government, whose borders they are located, which reflects the general sentiment on the matter. The state government is authorized by Article 7 to pass laws

pertaining to "the establishment, structure, composition, finance, and functions" of democratically elected councils of local government. Furthermore, some crucial areas of basic service delivery that have historically been considered the responsibility of Local Government Authorities—such as primary education, health services, and agricultural development—are now implied to be the responsibility of state governments, with Local Government Council involvement reduced to that of participating in the state's execution of its functions, even in the Fourth Schedule, which lists the functions to be performed by Local Government Councils. According to the Constitution: "A local government council's duties include involvement in the state government regarding the following issues: (a) the provision and upkeep of elementary, secondary, and vocational education; (b) the advancement of agriculture and natural resources, (c) the provision and upkeep of health services; (d) any additional duties that the State's House of Assembly may assign to a local government body, aside from the extraction of minerals.

Because there is no explicit legal distinction between the relative responsibilities of the state and local governments, the basic services that are the subject of this study—primary education and health, water and sanitation, and local roads—are attributed to them. Currently, the degree of autonomy granted to LGAs varies greatly within and between states due to state-level discretion over their powers; in many instances, they serve only as administrative extensions of state governments Abalaka, (2023).

**Table 1.** Nigeria: Expenditure Assignments

<b>Tier of Government</b>	<b>Expenditure Category</b>
<b>Federal only</b>	<b>Defense; Shipping; Federal trunk roads; Aviation; Railways; Posts, telegraphs and telephones; Police and other security services; Regulation of labor, interstate commerce, telecommunications; Mines and minerals; Social Security; Insurance; National statistical system; National Parks; Guidelines for minimum education standards at all levels; Water resources affecting more than one state;</b>
<b>Federal-State (shared)</b>	<b>Antiquities and monuments; Electricity; Industrial, commercial and agricultural development; Scientific and technological research; Statistics and surveys; University, technological and post-primary education; Health and social welfare;</b>
<b>State-Local (shared)</b>	<b>Primary, adult and vocational education; Health services; Development of agriculture and non-mineral natural resources;</b>
<b>Local government</b>	<b>Economic planning and development; Cemeteries, burial grounds; Homes for the destitute and infirm; Markets; Sewage and refuse disposal; Roads, streets, street lighting, drains, other public facilities;</b>

Source: 1999 Constitution and various sector policy reports

### **5.3 Relation to international practice and fiscal federalism principles**

The allocation of spending obligations outlined above is generally consistent with fiscal federalism as an economic theory and a global norm for decentralized nations. Since lower tiers of government have more knowledge about local conditions and can thus provide services that are better suited to the needs of the local population, the most general economic theory of fiscal federalism holds that service provision should be located at the lowest level of government consistent with the incidence of costs and benefits. Basic service supply and financing are mostly decided locally in major federations like the US, Canada, and Australia; there are very few examples of a common pooling of revenues generated by higher levels of governance. Special purpose transfers are also frequently used to promote spending by lower levels that are thought to be either national priorities or to have beneficial spillovers to other jurisdictions. As a result, there is usually a vertical fiscal imbalance across the levels of government when subnational own revenue streams do not match subnational spending obligations. Fiscal transfers from the federal government are then used to close the subnational revenue and expenditure gap, but in developed countries' experience, these transfers are typically designed so that, on the margin, additional sub-national expenditures are covered by locally generated revenues. Abalaka (2023).

### **5.4 An excessive amount of reliance on federal funds puts accountability at risk.**

Nonetheless, local administrations in poorer nations have because they serve a predominantly impoverished population, they have access to very restricted tax bases and confront a decreased possibility for cost recovery. Additionally, when there are significant regional differences in fiscal capacities, equalizing transfers might play a bigger role. As a result, subnational administrations could rely heavily on federal transfers. Because local governments may pass accountability and blame for service delivery to higher levels of government that control the majority of government revenues, an almost exclusive reliance on federal payments fosters a lack of accountability. Ajiteru (2023).

Therefore, the accountability issues mentioned above are unique to the Nigerian context. Subnational governments may always be able to attribute poor performance to a lack of resources if transfers are not well planned possessing the appropriate motivations to deliver at any given resource level. State governors have angrily rejected recent moves by the governor of the Central Bank of Nigeria to monitor domestic debt and control financial accounting by states, arguing that this is an infringement on their sovereignty and a breach of federalism. These occurrences highlight the necessity of conducting additional research on subnational borrowing as well as holding technical workshops and consensus-building sessions with the states to elucidate the regulatory powers of the federal government and the central bank under a federation. Therefore, appropriate institutions must be put in place to rectify Nigeria's vertical fiscal imbalance and force all levels of government to make decisions about allocations within strict financial constraints. Conventional fiscal federalism concepts may indicate that in order to lessen their reliance on federal transfers, states and local governments should be given greater authority to generate their own income; in other words, revenue decentralization should be more closely aligned with expenditure decentralization. But because of the geographic concentration of Nigeria's wealth—oil revenues made up 82% of total consolidated revenue in 2000—there is a widespread perception that a centralized tax code and administration is necessary to uphold the integrity and unity of the country and advance interjurisdictional equality. Abalaka (2023).

### **5.5 Conflict between redistribution and derivation**

In addition to the geographical concentration of oil resources, the unequal distribution of wealth, income, and industrial activity in Nigerian states results in a huge disparity in their capacity to generate money. This alleged horizontal disparity between the various Nigerian regions have resulted in an ongoing conflict between the ideas of regional allocation, which are based on resource derivation or redistribution among all states. The Okigbo Commission's 1980 recommendations, which state that the majority of revenues should be placed in a Federation Account (FA) and distributed among the three levels of government, form the basis of the current arrangement. States received a flat sum payment to run their

administrations and horizontal allocation based on population-based needs. It was suggested that the derivation principle be abandoned. This last argument, however, was rejected by the federal government, which instead established a special fund for mineral-producing regions that would receive a portion from the FA and allocate it to the states in accordance with discusses the principle of derivation Sulaiman (2023).

The southern states that produce oil have recently lobbied hard to give the derivation principle more weight when it comes to resource sharing. In light of this, the new constitution stipulates that the states from whence natural resources originate must receive at least 13 percent of the FA's direct revenue. There is still much disagreement on the Constitution's implications for revenue sharing, and its wording is opaque on this point. In actuality, though, a shift toward federalism founded on the derivation principle is gathering momentum. Because of this potentially explosive problem, Nigerian fiscal federalism is less of an economic endeavor and more of a political negotiating chip of setting minimum and fair standards for essential services across the nation.

### **5.6 Possibility of creating local tax bases other than oil?**

The development of additional, more widely distributed natural resources as a source of local income has been suggested. Refer to Akpan (2019). However, it is unclear if the marginal benefit of an additional naira of public resources would outweigh the marginal cost of revenue creation in a setting where the current sources are already generating government revenue equal to 50% of the nation's GDP and actual service delivery conditions remain subpar. One could argue that, given the current resource restrictions, the urgent goal is not to raise more money but rather to carry out governmental expenditures more efficiently. Additionally, given that subnational governments have jurisdiction over taxes like the personal income tax and property taxes, rising economic growth may itself translate into a greater local tax base Abalaka (2023).

### **5.7 Vertical sharing is hampered by the horizontal sharing formula**

The lump sum component, which divides 40% of the sub-national share of federal resources evenly among all jurisdictions, is given a lot of weight in the mechanism for allocating Federation Account resources to states and local governments. Unsurprisingly, this led to the establishment of perverse incentives that allowed federal funds to be used for political purposes only by establishing new states and LGAs. As a result, the number of these subnational entities nearly doubled in the 1990s. Currently, numerous states are working to expand the number of local governments under their control, which has greatly alarmed the national assembly, which is currently considering legislation to stop this kind of opportunistic behavior. The aforementioned analysis of Nigerian federalism's historical development and ongoing conflicts brought on by an excessive reliance on a geographically concentrated source of income emphasizes how important it is to turn attention away from the contentious political competition for resources and toward the creation of institutions that will allow all levels of government to work together more efficiently and provide better services. Given the current practice and issues with service delivery under the federal framework, the following sections will address the kinds of institutions to concentrate on.

#### **5.7.1 Federalism**

According to Hague and Harrop (2021), the unique characteristic of Legal sovereignty is shared between the federal government and the member states under federalism. They added that a federal constitution establishes tiers of government, each of which is given a distinct set of responsibilities. According to Hague and Harrop (2021), the core of federalism is the interaction between the federal and state governments. It entails fluidity, whereby the federalists from the units permit processes of ongoing evolution toward the emergence of a larger good for everyone by compromising their differences. It possesses the intrinsic powers of the different units and absorbs them. In support of the aforementioned, Sulaiman (2018) argued that federalism is the establishment of legal agreements and understandings between autonomous entities in order to meet their needs for freedom and autonomy. on the one hand, and for security and order on the other. There must therefore be a minimum of two levels of government. Examining the federation units' security requirements helps us better understand the necessity of their legal structure. Here, a legal framework that shields each

unit from the several overarching interests that could arise inside the federation is desired. Federal, state, and municipal governments collaborate to find policies that all parties can agree upon, which is why federations are distinguished by their wide intergovernmental links. Ajiteru (2023).

### 5.7.2 Federalism in Finance

According to Ajibola (2018), fiscal federalism refers to an intergovernmental fiscal relationship that specifies roles and duties among the different levels of government and the financial means to accomplish declared goals. This phrase refers to a form of governance where the various levels of the national government have the financial responsibility. For example, the federal, state, and local governments in Nigeria share responsibility for raising and spending money in order to fulfill their duties. Therefore, the distribution of tax revenue and operational duties among the several levels of government in a federal state is related to fiscal federalism. According to Wheare (2015:231), if state authorities determine that the services they are assigned under a federal system are too costly to provide, for instance, and if they request grants and subsidies from the federal government to asset they now report to the federal government instead of coordinating with it. Federalism is actually destroyed by financial subordination, no of how meticulously the legal structures are maintained. Therefore, it follows that both federal and state authorities in a federation must be granted the authority by the constitution. Each must be able to access and manage its own financial resources, as well as levy taxes and borrow money to fund its own services (Abalaka, 2023).

In response to the aforementioned, Onwe (2021) said that we embrace the aforementioned persuasive analysis as our basic notion and one of the fundamental classical concepts that true and balanced federalism should be based on fiscal federalism definition. In a true federation, the federal government should not rely on the state or municipal governments to carry out the statutory responsibilities and activities that have been assigned to it by the federal constitution. He went on to say that in most federations, the majority of the money that goes into the federation's common purse is made up of citizen taxes (both corporate and biological), but in Nigeria, mining rents and oil royalties make up more than 80% of the federation account, or the common fund that is distributed among the federation's units. According to Okoli (2014), the principles of fiscal autonomy and fiscal integrity are essential given the fundamental requirements of fiscal federalism. for a really federal system of government to endure and continue to exist. In actuality, the better the federal system's basis and the more likely the federation is to survive and continue to exist, the more budgetary independence the component states have through internally generated money. As a result, it is crucial that every federation government unit have both distinct and independent sources of income, and that these sources serve as a strong foundation for the government's financial requirements and possibilities. Abalaka (2023).

### 5.8 What is the actual operation of the federal structure?

To better comprehend the practical operation of the federal government in providing fundamental in addition to visiting six states and twelve LGAs within those states, interviews were done with the federal authorities in charge of infrastructure, health, and education services. For instance, interviews were conducted with the State elementary Education Boards, the Local Government Education Authorities, and the National Council on Universal Basic Education in the field of elementary education. Each level of government was asked to respond to questionnaires on the following topics:

- Assignment of management duties, with an emphasis on who is in charge of monitoring the actual provision of services and implementing sanctions when it doesn't happen;

- Distribution of financial obligations and agreements, including the funding source, and inclusion of information in yearly budgets;

- Allocation of duties in policymaking, and concerns in Coordination of policies;

- The relative ability of various tiers to provide services efficiently;

- Community involvement and community-based groups' role in enhancing the provision of public services.

The responses of the various tiers for the four sectors that were interviewed—primary education, primary health, water, and roads—are compiled in Tables 2 through 5. The duties taken on and carried out by each level in the water and road sectors seem to be considerably

more consistent and clear. With variable support from LGAs, states are primarily in charge of providing critical services in both of these areas. Although primary health care is mostly regarded as an LGA responsibility, there are some coordination concerns with relation to immunizations and the distribution and purchase of medications. The most ad hoc aspect of primary school delivery is the actual practice. Few standards are even understood, much less obeyed, when it comes to acknowledging administrative and financial obligations in a federal system. The way that LGAs view their obligations varies greatly; some consider themselves to be state agents, while others believe that the federal government is the most accountable entity. Few LGAs really take on administrative duties. Each tier indicates to the others that it is their duty to include equipment and maintenance in their yearly budgets. The only aspect of fiscal federalism that is widely understood and adhered to is teacher salary finance, which is also one of the most controversial topics. A more thorough explanation of this problem is given in Box 2 (Ajiteru, 2023).

### **5.9 Significant federal involvement**

While the federal government acknowledges that the main duty for the states and local governments are responsible for providing these essential services; it seems that they lack the ability and desire to do so successfully. Motivated by this paternalistic justification, it decides to prioritize some areas, including primary health and education, and heavily interferes in their implementation, mostly by making direct infrastructure investments. State governments claim that their budgeting and planning are distorted as a result of their inadequate consultation over the scope or placement of these federal initiatives. Among these are the Federal government's building of schools under the Universal Basic Education (UBE) program, the National Primary Health Care Development Agency's (NPHCDA) building of primary health care facilities, the Federal administration of rural water systems, and the drilling of boreholes under the National Project for Water Rehabilitation (NWRP). State governments claim that they are not completely included in the planning and decision-making process and seem to dislike this interference more than local governments. Conversely, local governments seemed to see federal programs as normal, acceptable, and consistent with the federal government's constitutional duty (Sulaiman, 2018).

It is possible to specifically highlight the UBE program's structure in this context. The federal government is building new classrooms in each local government area as part of the program's initial phase. However, states have complained that they are not sufficiently informed over the proper location of these structures and would want to manage the contracts themselves, which has made it difficult to get the program off the ground. In charge of State and local government councils will be involved in the selection of school locations, construction supervision, and certification of successful completion through committees that have been established at the federal level and in each state. The issue of properly maintaining and furnishing these new classrooms and schools still exists, though. According to the comments of the several primary education authorities, this could prove to be an especially challenging issue because no agency explicitly takes accountability for these actions (Ajiteru, 2023).

### **5.10 Provisional suggestions**

The federal government must reconsider how it might best get involved in these essential services, which are primarily the province of state and local governments. The current state of affairs seems to be one where although the nation has strong budgetary decentralization mechanisms in place thanks to the Federation Account, service delivery is carried out with a very centralized mindset. When used together, the two are inconsistent and lead to issues with coordination, duplication, and resource waste. The idea that the federal government will have to intervene and provide a bailout if the quality of these essential services deteriorates may also generate a perverse incentive at lower levels to divert funding from them. Projects may be shelved in the hope that the federal government will step in to stabilize the situation, as the crisis may be made worse by changes in revenues brought on by the price of oil. Sulaiman (2023).

The federal government ought to Examine the use of alternative tools, such as matching grants and earmarked transfers, in place of direct investment or deductions at source to

influence subnational behavior in light of national aims. Certain at-source deductions, like those for primary school teacher wages, might be seen as designated transfers or specified purposes, but because they aren't clearly packaged as such, they lead to discontent and accountability issues. Therefore, the following are two further ways that the federal government could encourage fundamental services: 1) lump-sum, designated payments to each state for a particular service, depending on tracking performance and delivery indicators in those services; 2) grants intended to match sub-national governments' resources, lowering the cost per naira spent by the subnational administration and promoting increased investment. Both of these would improve incentives for improved performance and be more in line with state governments' real practices and constitutional obligations. Abalaka (2023).

Any attempt to change the vertical revenue sharing formula in order to give subnational governments more resources must be supported by a thorough analysis of expenditure responsibilities; otherwise, there is a serious risk that the size of government will increase and the federation's financial situation will deteriorate. This risk arises in part because it is uncertain if the federal government's expenditure initiatives in matters of sub-national responsibility will be appropriately reduced in tandem with a reduction in the resources available to it. Actually, the capital budget experience from 2001 has demonstrated that the National Assembly is able to pass measures for federal investment without following the proper procedures for creating feasibility studies in areas where the federal government has no jurisdiction. This conundrum is explained in a National Planning Commission (NPC) report on due process in executing the 2001 capital budget. Ajiteru (2023).

### **5.11 Local administrations versus states**

It seems that state governments are ultimately in charge of providing these essential services, and in order to guarantee delivery, they frequently have to take over the duties and operations of local governments. As a result, they are starting to gripe that their portion of the federation account is not correspondingly higher, despite the fact that they supervise and occasionally carry out LGA duties. Frequently, local administrations couldn't tell the difference between the distribution of duties among the three levels, stating that the majority of tasks fall under the collective purview of the three levels. Rural water and sanitation services are one example. Although LGAs are in charge of providing rural water supplies and sanitary facilities in their regions, very few of them truly possess the tools and know-how to deal with these issues. Most lack rural water supply divisions capable of building modest water systems, like surface water impoundments and open wells. Uncollected household waste frequently clogs already insufficient surface water drainage systems, causing flooding from sewage-polluted water. Investigating possibilities for cooperation between nearby LGAs, especially those that are too tiny to be economically viable, might be worthwhile. But When asked if they cooperate with nearby LGAs to pool resources and talents in order to improve performance, none of the LGAs gave an affirmative response (Sulaiman, 2023).

Nevertheless, a review of certain local governments' budgets that the team obtained while conducting fieldwork reveals that it is not always clear that the distribution pattern is sensitive to local need. Almost no funds were set aside for upkeep and repairs, and the majority of the overhead budget for all sectors went into buying cars and covering travel costs. Nothing was given to schools under the primary education heading to cover operating costs; instead, the majority of the monies went to sports development. Only 8% of local governments' total capital expenditure was spent in 1999. on health and education, which is particularly unexpected given federal and state responses indicating that the higher tiers primarily finance and carry out other capital projects in water schemes or highways. Ajiteru (2023).

### **5.12 Provisional suggestions**

It would be easy to draw the conclusion from the arguments above that states should have more power and resources than LGAs and that, at least initially, LGAs should primarily act as state agents. Actually, the Constitution currently takes this position. Many, however, think that this would stifle the growth of grassroots organizations, which are most accountable to the people since they are actually closest to them. Therefore, the dispute can only be settled through a national conversation process. However, the analysis, this has

undoubtedly highlighted the possible dangers of expanding funding for LGAs without giving their actual capabilities and accountability enough thought. Below are some suggestions for investigating more creative institutional improvements.

### **5.13 Looking for new institutional structures that align with capacity and responsibility**

What results might be anticipated in terms of service delivery if more resources are transferred to the subnational governments without a review of expenditure duties, according to the above analysis of how Nigeria's federal system operates? The growing overall size of government and the lack of coordination among the three levels pose serious dangers of macroeconomic instability. Furthermore, it is unclear whether the purported advantages of bringing the people and government closer together will materialize, due to the possibility that lower-level incentives are identical to those at the federal level. Furthermore, any benefits from increased accountability may be offset by local capacity limitations (Sulaiman, 2023).

This is consistent with another contemporary development policy approach that holds that effective public service delivery to the impoverished depends on community involvement. Consequently, it is also necessary to take into account how community involvement and fiscal decentralization interact. Is it possible for community-based organizations and user groups to have more autonomy than the general government? Can all governmental levels provide better services when the community is involved? Or does more financial devolution to local governments become necessary to maintain community participation? Nigerian government levels at all levels showed interest in investigating the expanded role of community development committees, whose members are elected from inside the community and carry out managerial and oversight duties at the community's request. Examples of these committees' previous operations were given, and it was confirmed that they play a crucial part in the effectiveness of public sector performance. Therefore, reviving these organizations and their roles in monitoring overall government performance is an intriguing new area of public sector reform for Nigeria to investigate (Abalaka, 2023).

### **5.14 Evidence from Theory**

One of the biggest problems in a federating system is sharing a formula for the financial resources that the federating units jointly own and generate. In this regard, the focus of public finance specialists has been the analysis on the degree to which, under the framework of fiscal federalism, the crucial concepts of horizontal equity and effective resource allocation are met. However, Buchan recognized a second-best intergovernmental fiscal adjustment solution in what he dubbed "Unconditional Equalization Grants" because of the constitutional barriers that exist in some federating states, such as the United States and Nigeria, which prevent such a means of transfer. This theory's applicability to this subject is demonstrated by the Nigerian example, where certain states—particularly the oil states—are extremely wealthy in terms of providing national money, while others are not. Based on residuum viewpoints, it is evident that certain impoverished states in the nation may be burdened with a certain amount of taxation burden, but according to the notion of unconditional equalization, fiscal federalism allows all federating states to share equality, which will promote equitable growth. Ajiteru (2023).

### **5.15 Nigerian Tax Mobilization and Use for Development**

In Nigeria, one of the most hotly debated topics is public revenue mobilization. Regarding local governments, they are based on the following criteria: derivation (20 percent), population (30 percent), and equality (50%). Thirty-five percent of the VAT proceeds went to local governments in 1999 (Kayode, 2018). All of the main revenue streams, including mining, import and excise taxes, petroleum sales and profit taxes, company income taxes, and rents and royalties, are under the jurisdiction of the federal government. Because state and local taxes are so low, this restricts their capacity to generate income on their own, hence they are entirely dependent on funds from the federation account Emenuga (2018). The federation account provides a large portion of the federal government's revenue, which is then divided among the other levels of government using the vertical revenue allocation method. However, it appears that the federal government controls its distribution too much. Before the

remaining funds are allocated in accordance with the sharing formula, a significant number of deductions are made from the overall amount of money received (Ajiteru, 2023).

Federal Allocation to Local Government from 1976 to 1997 is shown in Table 2 below. Over the years, there were consistent increases in the federal allocation. The grant, which was N100 million in 1976, increased to N352.5 million in 1980 in nominal terms indicating an almost 29% compound growth rate. During the Structural Adjustments Program (SAP), local government saw a remarkable 45.7% increase in federal funding. The growth in the number of municipal governments may be the cause of this spike.

**Table 2.** Jurisdiction of Major Taxes in Nigeria

S/N	Types of Tax	Administration and Collection of the tax
1	Import duties	Federal
2	Excise duties	Federal
3	Export duties	Federal
4	Mining and royalties	Federal
5	Petroleum sales and profit tax	Federal
6	Companies gains tax	Federal
7	Capital gains tax	Federal/States
8	Personal income tax (other than listed in 9)	States
9	Personal income tax: armed forces, external affairs officers, on-residents, resident of the Federal Capital territory and the Nigeria police.	Federal
10	License fees on television and wireless Local radio	
11	Stamp duties	Federal
12	Capital transfer tax (CTT)	Federal
13	Values Added tax	States
14	Pools Betting and other Betting taxes	Federal
15	Motor Vehicle and Drivers Licenses	States
16	Entertainment tax	States
17	Land registration and survey fees	States/local
18	Property taxes and rating	States
19	Marketing and trading licenses and fees	Local
20	Motor park duties	Local
21	Advertisement fees	Local
22	Gift tax	States

Source: Constitution of the Federal Republic of Nigeria (1999)

**Table 3.** Distribution of Total Public Sector Expenditure among the Federal, State And Local Governments, 2017 – 2021 (n million)

Date	Federal	%	%	State and FCT	Local	%	Total
2017	1912229.1	75	17	44180.9	19475.5	8	25885.5
2018	160893.2	68	24	55916.4	18967.1	8	235776.7
2019	248767.8	71	23	79591.6	22443.3	8	350802.7
2020	288289.3	73	21	84177.1	24261.7	6	396528.1
2021	3562.3	74	19	92647.6	30833.0	6	479742.9

Sources: Central Bank of Nigeria, Annual report and Statement of Accounts, 2021

**Table 4:** Relationship between Direct Allocation and Internally Generated Funds at the Local Government Level

Date	Direct Allocation	%	Grant	%	Internal Tax Effort	%	Total
2017	18569.5	93	269.4	1	1035.6	5	19874.5
2018	17787.7	93	229.5	1	1205.9	6	19223.1
2019	22059.0	90	242.9	1	2110.8	9	24412.7
2020	21852.5	92	72.5	0	2027.1	8	23642.1
2021	28300.7	91	202.0	1	2515.6	8	31018.3

Sources: Central Bank of Nigeria, Annual report and statement of accounts, 2021

According to Table 2, between 2017 and 2021, the Federal Government possessed between 68 and 75 percent of all public spending, with the remaining 32 to 25 percent coming from the other two tiers. Just 8% and 6% of the nation's total public spending, respectively, were within the jurisdiction of all local governments in 2017 and 2021. Internal revenue for the municipal government climbed slightly from 5% to 8% over this period. Additionally, while local governments are permitted to borrow domestically, they are not permitted to borrow from outside sources in order to create any feasible projects. Decentralization of revenue and spending must go hand in hand because local governments are so important to the development of the country. Consequently, the mobilization and use of Nigeria's public resources should be reorganized so that the proper level of government would be in charge of allocating tax authority, tax bases, and borrowing. It is unhealthy when the federal government collects almost all of the revenue despite being too far away from the people. Local governments should be in charge of some profitable levies. To enable them to collect significant taxes for future development, the administrative apparatus that is currently weak should be enhanced. Abalaka (2023).

According to Akindele (2019), capital projects inherently create jobs and deter migration to metropolitan areas. The development of human capital is also aided by local governments' engagement in education. Since local governments are the closest to rural residents and 70% of Nigerians still reside in rural areas, the country's income mobilization drive and utilization tactics need to be significantly enhanced. to help them overcome upcoming obstacles. With only 3% of total public sector spending, local governments cannot effectively carry out their duties for economic planning and development, citizenship development and empowerment through primary, adult, and vocational education, and capacity building through health care provision. Accordingly, 95 percent of local governments lack sufficient funding (Emenuga, 2022).

### 5.16 Nigerian Fiscal Federalism: Problems and Difficulties

In order to develop an effective fiscal system, a variety of obstacles and difficulties must be resolved, both inside and outside the system. One of the main obstacles to new foreign

investment entering the nation has been the nation's external debt and its incapacity to pay off its debts. However, the domestic banking system's crisis also plays a unique role in the much-needed expansion of private savings and investments. The significant rate of inflation that occurred during the study period makes this much more difficult. Since high inflation steadily raises the proportion of disposable income used for spending, it is detrimental to private savings. Ajiteru (2023).

It has also been noted that an atmosphere of political and social instability makes it impossible to accomplish rapid growth and development. A system of orderly transitions of power is a prerequisite for political stability. The operation of an efficient fiscal system required to sustain economic progress is severely hampered by the lack of a well-organized structure and committed leadership. The difficulty is great since the leadership would have to determine the fiscal engineering's direction and pattern (Sulaiman, 2023).

Given the aforementioned considerations, Ajibola (2018) determined that Nigeria's fiscal federalism faces the following main obstacles:

The primary issue was the misalignment of the functions and sources of income of the several levels of government. Compared to the massive responsibilities expected of them, the lower levels of government receive a smaller share of the money. In fact, this has had a significant impact on the nation's infrastructure development.

Among the difficulties of Nigeria's fiscal federalism are declining revenue as a result of a decline in exports and changes in the price of the country's commodities on the global commodity market (Ajiteru, 2023).

Financial and economic mismanagement that manifests as corruption and Nigerian growth has actually been impacted by the financial impropriety of government employees, particularly in light of the corrupt and self-centered nature of the nation's leaders.

Rather than economic considerations, political applications are reflected in the distribution of federal revenue.

swift expansion of the fiscal unit, which results in a decrease in the amount of money allotted to the nation's states and municipalities.

## 6. Conclusion

With the knowledge that fiscal federalism has generated a great deal of discussion and controversy, particularly in Nigeria, where ethnic, political, and derivational factors all play a significant role, the paper has been able to analyze the difficulties of fiscal federalism in Nigeria. This paper's stance is that fiscal federalism can succeed if only the intergovernmental relationship principle is examined and upheld. Abalaka (2023).

## 7. Suggestions

The study suggests the following remedial options in response to the problems with fiscal federalism:

Intergovernmental relations issues should be examined and respected in order to clearly define the roles that each level of government is expected to play. Sulaiman (2023).

To lessen reliance on the oil industry for income and foreign exchange earnings, tax administration reform should be implemented to increase the growth of non-oil tax revenue.

In order to boost investment and savings, which are necessary for capital formation and economic growth, the government should strive for macroeconomic stability.

Considering the significant success attained by centralizing the administration of VAT, there is a chance that a federally coordinated effort to administer personal income tax would produce comparable outcome.

Instead of relying only on funds from the federation account, it is necessary to make sure that the income distribution encourages each state and local government to enhance internal revenue creation.

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