POLAC ECONOMIC REVIEW (PER)
DEPARTMENT OF ECONOMICS AND MANAGEMENT SCIENCE
NIGERIA POLICE ACADEMY, KANO

INTER-GOVERNMENTAL FISCAL RELATIONS AND ISSUES OF ECONOMIC DEVELOPMENT IN NIGERIA: THE WAY FORWARD

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Abstract

The paper examined the fiscal arrangement among the federating units in Nigeria in terms of how the common resources are shared and the impact of the share resources/revenue on the economic development in the Country. The study is a theoretical review of existing literature related to the subject matter. Evidence from studies suggested that shared revenue/public funds have not impacted positively in terms of addressing development challenges in the Country. it was also discovered that over reliance on oil revenue (mono-economy) to the neglect of exploration of other viable revenue yielding sources is largely responsible for myriad of financial challenges of the Country and inability to cope with issues of the economic development in the society. The study concludes with the recommendation to change the model of intergovernmental fiscal relations in Nigeria from the practice of depending majorly on the oil revenue of the federation account (federal allocation) to diversify the economy. Diversification will open up all the units of the federation to many revenue yielding activities that will have meaningful impact on the economic development in the Country.

Keyword: Fiscal Relations, Federating Units, Economic Development, Financial Challenges Diversifying Economy.

Introduction

The issue of fiscal federalism has been calling for attention from all strata of the Nigerian society since pre-independence. The domination of fiscal discussion among myriad of issues in the society is understandable because, the process of distribution of power and responsibilities among the federation units has financial implications. The implications are broad based and essentially bother on how finance (money) could be gotten for implementing welfare, growth and development policies of government at all levels hence, the endless agitations of the federating units with each influencing the fiscal arrangement for a good portion. The continuous agitations have led successive government since pre-independence era to set up revenue sharing commissions to come up with acceptable formulae for revenue sharing among the tiers of government (Oni, 2013).

In 1946 (before independence), Philipson commission was set up. The commission divided regional revenue into two; Declared and Non-declared (Adam, 2004). While the declared revenues were locally collected by the regional authorities, the non-declared revenues were recommended to be shared among the regions. The basic principles of sharing the non-declared revenues were Derivation, Even-progress and Population (DEpP) (Adam, 2004). After the operation of DEpP principles for five (5) years, the Hicks-Philipson Commission was set up in 1951. The commission recommended that the regions should be allowed some measure of power to raise, regulate and have to themselves certain items of revenue (Adam, 2004; Nkonkwo & Thamos, 2008). The recommendation saw the proposal of the commission on revenue sharing among the regions based on Derivation, Need and National interest (DNNi). In 1953, the Chick Commission came on board. The commission was set up to ensure that the derivation principle of Hicks-Philipson was followed to the letter (Imula & Keelu, 2010). The extensive work of the Chick commission saw the expansion scheme of revenue generation for sharing to include not only import and excise duties but also the then lucrative sources like mining, and rent royalties. Not satisfied with the expansion of the revenue base, in 1958, the Raisman commission was set up to review tax jurisdiction and tax revenue allocation in a manner that regions had the maximum possible amount/proportion of revenue within their domain. To that extent, the commission created the Distribution Pool Account (DPA) now known as Federation Account (FA). The guiding principle for sharing of revenue of account recommended by the commission was Derivation and Need (DN).

In 1964 (post-Independence era) the regions not comfortable with the formulas of the pre-independence era, the Binns commission was set up. The commission reviewed and made recommendations with respect to the allocation of mining, rent and royalties of FA (distributable pool). The commission came up, with the principle of financial comparability of the regions based on Need and Even-development (Walter, 2015).

Between 1968 and 1988, various revenue allocation commissions were set up by the government to find agreeable solutions to continuous agitations for a fair share of the revenue from a distributable pool. Such commissions include the Dina Interim Revenue Allocation Review Committee (DIRARC), the Aboyade Technical Committee (ATC) of 1977 that recommended the sharing formulae of 60%, 30% and 10% to Federal State and Local government area respectively from the FA. The Okigbo Commission of 1979 recommended the sharing formulae of 53%, 30% and 10% of the proceeds of FA to Federal, State and local government areas respectively with 7% allocated to Special funds.

In 1989, the National Revenue, Mobilization, Allocation and Fiscal Commission (NRMAFC) were set up as a permanent revenue allocation body of the nation. The Commission was charged mainly with the responsibility of regular review of allocation formulae. The Commission came up with the basic principles of revenue allocation among the three tiers of government in the country. The acceptable principles evolved by NRMAFC are Derivation, Population and Equity (DPE) (Kayode & Alani, 2015). The D-principle is a basis that states from where the bulk of the nation's revenues are derived/obtained should receive an extra share above what other states receive. The p-criteria dwells on the fact that states with large populations should receive extra above others with a smaller population. The E-basis sought equity in the allocation of revenues of the pool among the federating units. Based on the principles the revenue allocation body came up with an allocation formula of 48.5%, 24% and 20% to federal, state and local government areas respectively. The commission increased the special funds' allocation to 7.5% from 7% of the Okigbo's commission's recommendation in 1979. The allocation of special funds was to fund ecological problems, emergency problems and needs of mineral producing areas (Adams, 2004). From 2005 to date (2021), the allocation to special funds has been removed with allocation in the ratio of 52.68%, 26.72% and 20.60% to Federal, state, and local government areas respectively.

The narration so far is a history of continuous agitation for appropriate revenue formulae among the federating units in Nigeria, an issue that needs a true recipe that would end the struggle among the tiers of government clamouring for a good portion of the national cake.

Statement of the Problem

The clamour for more favouring revenue sharing formula among the federating units is ever-worsening for the insatiable demands of the units that bother on financial needs (Otumba & Adu, 2019). It is in the bid to satisfy the needs that the constitution allocates the most lucrative revenue sources in the common pool account (FA) for sharing among the federating units. These juicy sources of revenues are those derivable from direct taxes such as company income tax and petroleum profit tax, indirect taxes such as custom and excise duties and taxes from mining activities which include mining fees, rent on crown lands, royalties on gold, tin iron ore, bitumen, and coal etcetera. Also, states, where the resources are obtained, are entitled to an additional of the allocation from the federation account (the national cake). Apart from the share of the federation account, the law (the constitution) allows each tier of government to levy and collect certain taxes within their jurisdiction.

It is quite worrisome however, that despite the numerous revenue sources available to each of the units, endless claims ranging from victimization, marginalization of all regions, zones, states and local governments of the nation continues unabated in terms of federal allocation with little or no emphasis on maximizing the existing sources of revenue, exploring new sources and utilizing them for economic development of the society. Thus, Chukezie and Patrick (2017) observed that total abandonment of all revenue potentials and failure to properly harness the existing revenue sources by federal, states and local governments in Nigeria are key issues that have impacted negatively on all economic development indices in the Nigerian Country.

Objective of the study

Nigeria is a monoculture economy that dwells largely on oil revenue. The size of the distributable pool (the federation account) therefore depends on the amount derivable from few revenue sources mainly oil. Often noted that the size of the account does shrink from time to time due to a myriad of factors such as production stoppage and fluctuation in oil prices in the international market. Unfortunately, the federating units rely majorly on the share from the account for their numerous needs to the neglect of other potential and viable sources that could be explored for additional income (Olanuga & Ajayi, 2014). The objective of this study therefore is to look at the consequences on the economic development of the nation, her over dependence/reliance on the federation account especially the states and local government councils with a view to proffering solutions on how to explored additional sources of revenue to stimulate economic development in the society without having to depend heavily on revenue from the federation account/federal allocation.

Literature Review

Conceptual Review

Inter-Governmental Fiscal Relations (IGFRs): It involves the pattern of financial cooperation among various levels of government in a federal system (Fatile & Adejabu, 2008). IGFRs or a fiscal arrangement means how various levels of government in a nation or state constitutionally relate or connect in the sharing of financial resources of the country (Nchuchuwe & adejuwon, 2015). It is a policy that brings to fore the nature of financial engagement between and among the units within a federal system of government (Edeh Olobo, 2014). Dapo and Fusuyi (2018) opined that IGFRS or fiscal arrangement is an arrangement that is clearly defined by the constitution and it shows how the tiers of government share the financial resources of the nation. The whole idea of IGFRs, therefore, hinges on how resources/revenues are allocated among units in a federal system enshrined in the constitution (Teidi, 2003 cited in Nchuchuwe & Adejuwon, 2015). It is the allocation of responsibility for public expenditure and powers to raise revenue by different levels of government (Bradley & smith 2009). The essence of IGFRs is to harness the uneven geographical distribution of resources available in the nation to be shared equitably among units in the federal system (Ebajemu & Abudu, 2011). Equitable distribution of resources of the nation through IGFRs is one of the viable means for transferring purchasing power from the richer to the poorer region in order to reduce inequality in the society (Gbadasi & Alabi 2014).

Generally, IGFRs is concerned primarily with how centrally collected revenues are shared among tiers of government by the use of pre-agreed formula Adams 2004). The use of the pre-agreed formula for allocation of common resources is a means of promoting social cohesion and unity among various zones, tribes and ethnic groups within a country (Gbadasi & alibi 2004). Over the years, Nigeria has been trying to stimulate national cohesion for the economic development of all regions through various revenue sharing formulas with a view that each level of government should be able to legitimately explore, raise and keep some revenue for its use.

Some of the revenue allocation formulas which has been suggested and tried over the years are summarized in the table below.

Table 1: Revenue Allocation Formula up to 2020: Revenue allocation formula in % up to 2021

Allocations	Up to 31/12/89 %	1/1/90 to 31/12/91 %	1/1/92 to 31/12/91 %	1/6/92 to 31/12/2002 %	2003 %	2004 %	2005 – 2021 %
Federal government	55	50	50	48.5	46.63	47.19	52.68
State government	32.5	30	25	24	33	31.10	26.72
Local government	10	15	20	20	20.37	15.21	20.60
Special fund	2.5	5	5	7.5	-	6.5	-
Total	100	100	100	100	100	100	100

Source: Editions of National Bureau of Statistics NBS and CBN Statistical Bulletins (1989…2021)

The revenue sources for the federation account (distributable pool) for allocation to the federating units based on the existing formula in table 1 are depicted in the table below.

Table 2: Federation Account and Head of Revenue Sources.

Revenue Head	Sources of Revenue
Head 1	Direct taxes: examples of direct taxes are company income tax, petroleum profit tax, the surcharge on pioneer companies, withholding tax, capital transfer tax etcetera. Also included in this revenue head are earnings from direct sales of crude oil for domestic consumption and export.
Head 2	Indirect taxes: custom and excise duties, import duties, export duties, tariffs, Value Added Tax (VAT)
Head 3	Mining: mining revenue include mining fees, rent in crown lands, royalties on gold, tin, iron ore, bitumen, coal and revenue derivable from mining-related activities.

Sources: Constitution of Federal Republic of Nigeria, Finance (control and management) Act 1958, Audit ordinance (1958) cited in Adams (2004)

Economic Development: is defined in terms of removal of poverty, illiteracy, diseases with positive changes in the living standard of the society (Laffati & Payne, 2002). It is a process where low-income national economies are transformed into modern industrial economies for qualitative and quantitative improvements in a country’s economy (Breton & Davy, 2008). It is a political-economic and social transformation that occurs over a period of time involving passage from lower to a higher stage in a society implying changes (Meier, 1964 cited in Gbadasi & Alabi, 2014). Kindler and Bruce (1958) cited in Chukezie & Patrick (2017) viewed economic development to include improvements in material welfare especially for persons with the lowest income, eradication of mass poverty with its correlates of illiteracy, diseases and early death. Graham and Adler (2015), stated that development is an economic thought of a nation that includes the shift in an underlying structure of production from subsistence agriculture towards industrial activity for more opportunities in the society. Collaborating Graham & Adler (2015), Yilmann and Seigh (2016) opined that economic development is a process that involves the organization of an economy in such a manner that productive employment is generally among the working-age population rather than the situation of a privileged minority and the corresponding greater participation of broad-based groups in decisions that bother on their welfare. Drewnewski (1996) cited in Yilmann & Seigh (2016) defined economic development in terms of economic and social welfare to mean increased per capita income and the creation of new opportunities in education, healthcare and the employment sector.

Seers (1972) cited in Fatile & Adelabu (2018) raised the basic questions about the meaning of economic development succinctly when he asked questions about a country's development such as what has been happening to poverty? what has been happening to unemployment? and what has been happening to inequality in society? The rising trend in these economic development indicators will be of concern for a nation to deploy all its actual and potential economic resources to improve them (Kayode & Alani 2015). Generally, economic development is concerned with economic, social, institutional mechanisms and policies that are necessary for bringing large scale improvements in the levels/ standard of living of the masses (Bradley & Smith, 2009; Ebajenu & Abudu, 2011; Gbadasi & Alabi, 2014)

The most critical issues impeding economic development in Nigeria are that of population growth, unemployment, poverty and illiteracy with all manners of negative socio-economic consequences in the society (Otumba & Adu, 2019).

It is sad that the ever-rising rate of underemployment in the country is alarming. The social consequences of unemployment in society is worrisome as many unemployed Nigerian youths including graduates have taken to all forms of crimes and criminality of arson, armed robbery, kidnapping, thuggery, insurgency, militancy, murder, drug abuse, prostitution among others.

The table below shows the rising rate of unemployment in Nigeria in the last six (6) years.

Table 3: Unemployment Rate (%) in Nigeria 2016 – 2021

Year	Growth rate (%)	Increase/ decrease in rate (%)
2016	13.9	Increase of 3.5 from 2015 which was 10.4
2017	14.1	Increase of 0.2 from 2016.
2018	8.85	Decrease of 5.5 form 2017.
2019	23.1	Increase of 14.25 from 2018
2020	33.5	Increase of 10.4 from 2019
2021	40.5	Increase of 7.01 from 2020

Source: National Bureau of Statistics (NBS) (2016…2020). Year 2021 figure is estimated.

The direct multiplier effect of unemployment is poverty not being able to afford the basic necessities of life (food, shelter and clothing) including the inability to go to school to learn how to read and write resulting in inequality in society.

In terms of ranking, it is quite unfortunate to note that about 69% of the Nigerian population of 200 million people lives below the poverty threshold of $1.9 per day as the country ranks 125 out of 145 countries on global inequality (Nigeria Economy Profile, 2018; Oxfam Report, 2019). As the country faces a major population boom (growth), it is estimated that Nigeria could become the world's third-largest country by 2050 with the majority of the population living in extreme poverty (Otumba & Adu, 2019).

With these ugly reports of the country's economic development rating, Otumba and Adu (2019) remarked that it will be practically impossible for the majority of the population to meet the basic necessities of life, attain self-esteem in terms of self-respect, independence and freedom from the misery of three evils of Want, Ignorance and Squalor (WIS).

Dapo and Fasuyi (2019) collaborating Otumba & Adu (2019) noted that in most developing nations especially in sub-Saharan Africa and Nigeria in particular, issues of economic development are that of challenges of population growth, ever-rising rate of unemployment, poverty, illiteracy and inequality with the corresponding problem of how to source and deploy/allocate ever scarce public resources/public funds to reduce the socio-economic effects of the issues in the society.

Empirical Review

Dele (2015) conducted a study on the fiscal federation and economic development in Nigeria: The contending issues. The aim was to examine the nexus between Nigeria's fiscal federalism and the rate of economic development in the country. It was discovered that fiscal federalism has not spurred the desired development in the country due to over-dependence on oil revenue for public expenditure to address economic development challenges in Nigeria.

Richard and John (1990) did a study on intergovernmental fiscal roles and relations. The research reviewed the changing roles and relations between the federal, state and local governments. It was discovered that in the past years, much funds have flown from the central (federal) to the two federating units with little to show on economic development.

Okechukwu, Patrick and Jide (2019) examined the model and determinants of state and local government relations in Nigeria. The study investigated the extent to which constitutional provisions determine state and local government relations as against the macrostructure of inter-governmental relations between the federal government and states. It was discovered that the level of autonomy enjoyed by the local government largely depends on the level of autonomy the states themselves enjoy with an impact on the extent of economic development projects each of these federating units can undertake.

Broadway (2001) conducted a study on the inter-governmental fiscal relations: The facilitator of fiscal decentralization. The aim was to examine the system of fiscal relations including the grant structure of fiscal relations. It was discovered that decentralization is suitable as this can impinge upon efficiency, equity and fair development in the society.

Nchuchuwe and Adejuwon (2015) did a study on the inter-governmental fiscal relations and local government in Nigeria: Issues and prospects. It was an exploratory study that examined the nature of intergovernmental fiscal relations and local government in Nigeria. Findings suggested that local government autonomy is sacrosanct for meaningful economic development at the grass-root.

Egwu, Ugbomhe, Osagie and Eme (2016) studied inter-governmental financial relations problems in Nigeria. The aim was to ascertain problems of inter-governmental fiscal relations in Nigeria. It was an empirical study that made use of secondary data obtained from publications of NBS and CBN reports. The technique of content analysis was used to analyze the data. Findings suggest that the nature of state and local government joint account contributes to the failure of states in carrying out their developmental responsibilities.

Other studies (Talmot & Dawudu, 2013; Olanuga & AJayi 2014; Salami & Majuh 2016) in their separate studies on inter-government fiscal relations and development in the society used different analytical techniques such as t-test, correlation and regression analysis to examine the impact of revenue allocation in Nigeria. It was found in these studies that revenue from federal allocation has no significant impact on the economic development in society.

Theoretical Framework

The study is anchored on displacement theory propounded by Jack and Allan in 1961. The theory assumed that public expenditure does not increase in a straight or continuous manner but in Jack or stepwise fashion. The increase in the movement pattern of government expenditure is a result of the occurrence of some social or other disturbances which the existing level of revenue cannot meet. The movement from the initial and low level of expenditure and taxation to a new and higher level is known as the displacement effect (Dapo &

Fasuyi, 2019). Displacement effect leads to the creation of inspection effect where both government and the people (taxpayers) would attain a new level of tax tolerance by reviewing revenue position and finding solutions to address the problem of inadequate revenue. This, therefore, underscores the relevance of the theory to the as the research is an exploration one on ways to address the issue of revenue inadequacies in all the federating units of Nigeria particularly at the State and Local government levels.

Methodology

It is an exploratory paper that reviewed theoretical as well as empirical studies on inter-governmental fiscal relations and issues of economic development in Nigeria. The presentation of research is therefore theoretical in nature utilizing relevant literature on the subject matter.

Findings and Discussion

The nagging issue bothering Nigeria as a nation is whether the country will continue to depend on the federation account and indeed oil revenue to address her numerous challenges of economic development.

Quite apart from the federation account and oil money from an excess crude account shared among the federating units, each of the tiers of government in Nigeria are entitled by law to raise certain taxes within areas of their tax revenue jurisdiction. These revenue sources are recklessly abandoned due to reliance on revenue from the central government (Olanuga & Ajayi, 2014). Failure of the units to innovate, explore and harness all revenue yielding potentials have negatively impacted society as each of the tiers are always in desperate need of funds to execute their responsibilities. This, therefore, brings to question the impact of shared revenue on economic development in society (Talmolt & Dawudu 2013; Olanuga & Ajayi, 2014; Salamis & Majuli, 2016).

The primary objective of raising public funds is to secure minimum standards of living for all citizens evidenced by the low levels of unemployment, poverty, illiteracy and inequality in the society. It is unfortunate that Nigeria is rated low in these key development indices. It is equally sad that a significant percentage of the nation's population lives in poverty with a wide gap between the rich and the poor signifying a huge inequality in the society (Nigerians Economy Profile, 2018: Oxfam Report, 2019)

Positive changes in the living standard of Nigerian society may be difficult to attain with an ever-rising rate of population growth. Equally, a guaranteed economic and social welfare of citizens with an increase in per capita income and creation of new opportunities in education, health and employment referred to as economic, development in Yilmann & Seigh, (2016) may be difficult to achieve with population upsurge in the country.

As a mono-cultural economy where the only major source of fund is oil revenue of the federation account, problems such as housing, environmental sanitation, health, education, provision of infrastructure, employment creation and so on associated with population growth requires funds to address of which reliance on one major source of revenue cannot solve.

Conclusion and Recommendations

All economic development performance indicators in Nigeria are not quite impressive. It is quite unfortunate that all government interventions targeted at addressing developmental issues have not yielded the desired results. One of the major reasons for this undesirable result particularly that of youth employment and poverty eradication are a paucity of funds to enable the government to execute the necessary intervention programmes in these key areas of development. It is disheartening and suicidal that about 90% of Nigeria's revenue is from oil and the collapse of this source is a matter of time as countries such as China, Japan, Britain, the U.S and other buyers of the nation's oil have started finding alternatives to crude oil for their industrial and domestic activities.

In a true federal structure, the central (federal government gets its revenue by collecting taxes from multiple layers of economic activities in several states and local government councils. This structure is different from what is happening in the Nigerian environment where little or no attention is paid to other sectors that could be explored for revenue.

Prior to the nation's independence in the '60s when there was no federation account and oil money to share, the country depended on multiple natural resources abound in all regions for revenue. These resources are tapped, used locally and exported for earnings in foreign exchange. That was when the nation's currency was at par or even stronger than the U.S Dollars or British pound. The economy was strong evidenced by the low level of unemployment and poverty with high economic growth indicated by a high Gross Domestic Product (GDP) growth rate. With many companies and local industries springing up then, the nation was on a sound path in its quest for industrialization.

Unfortunately, the weakness of Nigerians economy came as a result of the operation of the mono-economy. The practice has blurred the ability of government at all levels to explore other sectors for revenue. Therefore, for a change in the model of inter-governmental fiscal relations that can impact positively the economic development in Nigerian society, the following recommendations are suggested as a way forward.

1. There is a need for the nation to turn attention to numerous resources that are available in all states of the nation for exploration. This is diversification from mono-economy to multiple revenue yielding sources.
2. Closely related to diversification from mono-economy is the need for devolution of power that will enable states of the nation to develop resources that are available in their domain. The states can only pay a certain percentage of the revenue generated from the production and sale of these resources to the central (Federal) government. This will certainly trigger a lot of economic activities in all the States of the federation.
3. In diversification and power devolution, there is a need for the lower levels of government to enjoy some degree of autonomy. States and local government councils should be allowed to make decisions on how best to explore and put to use their resources for revenue generation and investment.

Economy diversification, power devolution, autonomy and decentralization from the higher (federal) to lower levels of government (states and local government councils) are all needed to bring about economic growth and development of the nation. With diversification, a lot of economic activities will spring up in the country. The multiplier impact of increased economic activity is increased revenue for government at all levels, employment opportunities, reduction in crime rate, poverty level, inequality and improved living standard in Nigerian society indicating economic development.

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