

REVENUE ALLOCATION, ELITE POLITICS, AND THE CRISIS OF FISCAL FEDERALISM IN NIGERIA: ISSUES, TRAJECTORIES, AND PROSPECTS

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Abstract

Nigeria's federal system is fundamentally shaped by the politics of revenue allocation, yet persistent disputes over fiscal transfers, resource control, and intergovernmental relations continue to undermine national cohesion and subnational development. This article interrogates the crisis of fiscal federalism in Nigeria by examining how elite politics structures revenue allocation outcomes and constrains reform trajectories. Drawing on the political economy and elite theory frameworks, the study analyzes the historical evolution of revenue allocation formulas, the bargaining strategies of political elites, and the institutional dynamics that sustain fiscal centralization. Using a qualitative methodology that combines documentary analysis of constitutional provisions, revenue allocation commissions' reports, and secondary scholarly sources, the article demonstrates that revenue allocation in Nigeria is less a technocratic exercise than an arena of elite contestation driven by power asymmetries, rent-seeking, and regime survival. The findings reveal that elite dominance has entrenched distributive conflicts, weakened fiscal autonomy at the subnational level, and exacerbated regional inequalities, thereby deepening the legitimacy crisis of Nigeria's federal arrangement. The article argues that without confronting the

political foundations of revenue allocation, technical reforms are unlikely to achieve sustainable fiscal stability. It concludes by outlining reform prospects anchored in institutional restructuring, enhanced fiscal decentralization, and inclusive elite bargaining, with broader implications for federal systems in resource-dependent states.

Keywords: Revenue allocation; fiscal federalism; elite politics; political economy; intergovernmental relations; resource control; Nigeria.

Introduction

Revenue allocation remains one of the most enduring and emotionally charged issues in Nigeria's federal experience. From the late colonial period to the present Fourth Republic, debates over how national revenues should be shared among the federal, state, and local governments have repeatedly generated political tension, institutional instability, and regional grievances. At its core, revenue allocation in Nigeria is not merely a fiscal or administrative exercise; it is deeply political, reflecting struggles over power, identity, resource control, and access to state resources. As such, the politics surrounding revenue allocation continue to shape the character and performance of Nigeria's federal system.

In federal systems, revenue allocation is expected to balance two competing imperatives: national unity and subnational autonomy. Fiscal federalism theory suggests that an effective federal arrangement should assign revenue powers and expenditure responsibilities in a manner that promotes efficiency, equity, accountability, and development across constituent units (Oates, 1972; Musgrave, 1983). However, Nigeria's experience has consistently fallen short of these ideals. Despite operating a constitutionally defined federal structure, Nigeria maintains one of the most fiscally centralized systems among federal states, with the

federal government controlling the most lucrative revenue sources, particularly oil and gas (Suberu, 2001; Arowolo, 2011).

The discovery of oil and its subsequent dominance of Nigeria's economy profoundly transformed the country's fiscal and political landscape. Oil revenues, centrally collected and distributed through federally determined formulas, intensified competition among regions and political elites for access to the center (Watts, 2004). Over time, this dynamic weakened the principle of derivation, reduced incentives for internal revenue generation, and entrenched fiscal dependence among subnational governments. Rather than serving as a tool for balanced development, revenue allocation became a mechanism for managing elite coalitions and containing political dissent (Mustapha, 2014).

The crisis of fiscal federalism in Nigeria is evident in several interrelated developments. First is the growing dependence of states and local governments on federal allocations, with many subnational units unable to meet basic governance responsibilities without monthly transfers from the federation account. Second is the persistence of regional inequality and underdevelopment, particularly in oil-producing communities that paradoxically experience environmental degradation alongside fiscal marginalization (Watts, 2004; Obi, 2010). Third is the recurring agitation for resource control, restructuring, and constitutional reform, which reflects widespread dissatisfaction with the existing fiscal order.

While a substantial body of literature has examined revenue allocation in Nigeria, much of it adopts a technocratic or institutional lens. Scholars have focused on the evolution of revenue allocation principles, the work of various fiscal commissions, constitutional provisions, and the efficiency of existing formulas (Ekpo, 2004; RMAFC, 2018). These studies provide important insights into the

mechanics of revenue sharing, yet they often treat political contestation as a secondary concern. As a result, the deeper political forces that shape revenue allocation outcomes—and explain their resistance to reform—remain underexplored.

This article argues that elite politics lies at the heart of Nigeria's revenue allocation crisis. Drawing on elite theory and political economy perspectives, it conceptualizes revenue allocation as an arena of power struggle in which political elites negotiate access to rents, maintain regime stability, and manage regional alliances (Mills, 1956; Acemoglu & Robinson, 2012). In Nigeria, fiscal institutions do not operate in isolation from politics; rather, they are embedded within networks of elite interests that influence policy design, implementation, and reform. Revenue allocation formulas, therefore, reflect not only constitutional principles but also the strategic calculations of dominant political actors.

Elite domination of fiscal policy has had profound implications for Nigeria's federal system. By centralizing revenue control, political elites at the federal level strengthen their leverage over subnational governments, weakening accountability and fostering a culture of fiscal dependency. At the same time, subnational elites often collude within this system, prioritizing access to federal rents over the development of autonomous revenue bases. This mutually reinforcing elite arrangement sustains a fiscal structure that benefits political actors while undermining broad-based development and democratic accountability (Suberu, 2001; Lewis, 2011).

Situating Nigeria within broader comparative debates further underscores the significance of this study. Resource-dependent federal states across the Global South face similar challenges of elite capture, fiscal centralization, and distributive conflict (Ross, 2012). Nigeria's experience thus offers valuable lessons for understanding how resource wealth, when mediated through elite-driven

institutions, can destabilize fiscal federalism rather than strengthen it. By examining the political foundations of revenue allocation, this article contributes to both Nigerian scholarship and comparative studies of federalism and political economy.

Methodologically, the study adopts a qualitative approach, relying on documentary analysis of constitutional texts, reports of revenue allocation commissions, policy documents, and relevant scholarly literature. This approach enables a historically grounded examination of how revenue allocation principles have evolved and how elite interests have shaped their trajectories over time. Rather than evaluating revenue allocation solely in terms of economic efficiency, the article emphasizes the political contexts and power relations that sustain Nigeria's current fiscal order.

The article proceeds as follows. The next section outlines the theoretical framework, integrating political economy and elite theory to explain revenue allocation as a site of elite contestation. This is followed by an analysis of the historical evolution of revenue allocation in Nigeria. Subsequent sections examine the role of elite politics in sustaining fiscal centralization and assess its implications for intergovernmental relations and regional inequality. The concluding section discusses reform prospects, arguing that sustainable fiscal reform in Nigeria requires confronting the political foundations of revenue allocation rather than relying exclusively on technical or institutional adjustments.

Theoretical Framework

Political Economy and Elite Theory as Analytical Lenses

This study adopts political economy theory and elite theory as complementary frameworks for analyzing the crisis of fiscal federalism in Nigeria. Together, these perspectives illuminate how revenue allocation operates as a political process shaped by elite

interests, institutional constraints, and struggles over resource control rather than as a neutral mechanism for economic coordination.

Political economy theory emphasizes the interaction between political power and economic structures in shaping public policy outcomes. From this perspective, fiscal institutions—including revenue allocation systems—are not merely administrative arrangements but arenas through which power is exercised and contested (Acemoglu & Robinson, 2012). In resource-dependent states such as Nigeria, political economy analysis is particularly useful because it explains how control over natural resource rents influences state formation, elite behavior, and patterns of governance (Ross, 2012). Revenue allocation, therefore, reflects the broader political settlement underpinning the Nigerian state.

Elite theory, on the other hand, focuses explicitly on the role of a relatively small group of political actors who dominate decision-making processes and shape policy outcomes in their own interests. Classical elite theorists argue that regardless of democratic institutions, political power tends to be concentrated in the hands of a minority who control key economic and political resources (Mills, 1956; Pareto, 1935). In the Nigerian context, elite theory provides a powerful lens for understanding why revenue allocation reforms have been persistently resisted or diluted despite widespread recognition of their dysfunction.

Fiscal Federalism and the Limits of Technocratic Explanations

Traditional fiscal federalism theory assumes that revenue-sharing arrangements are designed to promote efficiency, equity, and accountability across levels of government (Oates, 1972; Musgrave, 1983). According to this framework, subnational governments should have sufficient fiscal autonomy to match local preferences and development needs, while central authorities coordinate redistribution and macroeconomic stability.

However, Nigeria's experience reveals the limits of this technocratic model. Although fiscal federalism principles are formally embedded in constitutional provisions and revenue allocation formulas, their practical operation is heavily mediated by political bargaining. The centralization of revenue powers—especially over oil and gas—cannot be adequately explained by efficiency considerations alone. Instead, it reflects deliberate political choices aimed at consolidating elite control over strategic economic resources (Suberu, 2001).

By integrating political economy analysis, this study challenges the assumption that Nigeria's fiscal imbalance is primarily a design flaw. Rather, it argues that fiscal centralization is a politically rational outcome for dominant elites who benefit from controlling revenue flows and distributing them through discretionary mechanisms. In this sense, revenue allocation becomes a tool for managing elite coalitions and ensuring regime stability rather than promoting fiscal responsibility or development.

Elite Politics and Revenue Allocation as Rent Distribution

Elite theory further clarifies how revenue allocation functions as a system of rent distribution in Nigeria. Political elites—operating across federal and subnational levels—use access to centrally distributed revenues to sustain patronage networks, secure electoral support, and neutralize opposition (Lewis, 2011). This elite-driven system discourages fiscal autonomy at the subnational level, as dependence on federal transfers reduces incentives for internally generated revenue and local accountability.

The persistence of distributive conflicts over revenue allocation—particularly debates around derivation, resource control, and restructuring—can therefore be understood as struggles among competing elite factions rather than purely regional or popular demands. While such conflicts are often framed in ethno-regional or developmental terms, they are frequently mediated by elite actors

seeking to renegotiate their share of national resources (Mustapha, 2014).

This framework also explains why reform efforts initiated by fiscal commissions and constitutional conferences have yielded limited results. Without altering the underlying elite incentives that sustain fiscal centralization, institutional reforms remain superficial. As elite theory predicts, dominant groups adapt reforms to preserve their advantages, resulting in continuity rather than transformation.

Linking Elite Politics to the Crisis of Fiscal Federalism

By combining political economy and elite theory, this study conceptualizes Nigeria's crisis of fiscal federalism as a political crisis rather than merely a fiscal or administrative one. The concentration of revenue powers at the federal level weakens subnational autonomy, distorts intergovernmental relations, and deepens regional inequality. At the same time, it fosters a rent-seeking political culture in which access to state power becomes the primary route to economic accumulation.

This theoretical framework allows the study to move beyond descriptive accounts of revenue allocation and instead explain why Nigeria's fiscal system remains resistant to reform. It highlights how elite domination of fiscal institutions generates a self-reinforcing cycle: fiscal centralization strengthens elite control, which in turn sustains centralized revenue allocation. Breaking this cycle, the framework suggests, requires political—not merely technical—solutions.

Historical Evolution of Revenue Allocation in Nigeria

The evolution of revenue allocation in Nigeria reflects the broader trajectory of state formation, political centralization, and elite consolidation. Far from being a neutral fiscal arrangement, revenue

allocation has historically functioned as a mechanism through which political authority is organized, contested, and maintained. From the colonial period to the contemporary Fourth Republic, changes in revenue allocation principles have closely mirrored shifts in political power, economic structure, and elite interests. Understanding this historical evolution is therefore essential for explaining the persistent crisis of fiscal federalism in Nigeria.

Colonial Foundations and the Principle of Derivation

Revenue allocation in Nigeria originated during the colonial era, when fiscal arrangements were designed primarily to serve imperial administrative efficiency rather than local development. Under British colonial rule, the Nigerian state operated a highly decentralized fiscal system based largely on the principle of derivation, whereby regions retained revenues generated from within their territories (Suberu, 2001). This arrangement was less an expression of federal idealism than a pragmatic response to administrative constraints and the uneven economic capacities of Nigeria's regions.

The Richards Constitution of 1946 and the Macpherson Constitution of 1951 formalized regional autonomy and reinforced derivation as the dominant principle of revenue sharing. At this stage, Nigeria's economy was largely agrarian, with regions specializing in export commodities such as cocoa in the West, groundnuts in the North, and palm produce in the East. Fiscal decentralization encouraged regional competition and development, as regional governments relied heavily on internally generated revenues to finance public services and infrastructure (Ekpo, 2004).

However, even in this early period, revenue allocation was politically contested. Colonial fiscal arrangements privileged economically stronger regions, sowing early seeds of interregional resentment. Nonetheless, derivation remained politically acceptable because it

aligned with the regionalized structure of political power and the limited role of the central government.

Post-Independence Adjustments and the Politics of Balance

Following independence in 1960, Nigeria retained derivation as the cornerstone of its revenue allocation system, though growing political pressures soon necessitated adjustments. The Raisman Commission of 1958, which guided early post-independence fiscal relations, attempted to balance derivation with principles of need and national interest (Suberu, 2001). This marked the beginning of a gradual shift away from strict derivation toward more redistributive mechanisms.

The political logic underpinning this shift was clear. As the federal government assumed greater responsibilities for national integration and economic planning, it required increased access to financial resources. At the same time, political elites sought to manage interregional tensions within an increasingly fragile federation. Revenue allocation thus became a tool for political stabilization, enabling the federal center to redistribute resources in ways that mitigated centrifugal pressures.

The discovery of crude oil in commercial quantities in the late 1950s and its rapid expansion in the 1960s fundamentally altered this balance. Oil revenues, centrally collected and geographically concentrated, introduced new distributive conflicts and intensified elite competition for control of the federal state (Watts, 2004). As oil replaced agriculture as Nigeria's primary source of revenue, the political incentives underpinning derivation weakened considerably.

Military Rule and the Centralization of Fiscal Power

The most dramatic transformation in Nigeria's revenue allocation system occurred during the era of military rule (1966–1999). Military

governments, operating under a unitary command structure, systematically centralized fiscal authority as part of broader efforts to consolidate political control and suppress regional autonomy. Decrees enacted during this period transferred ownership and control of natural resources from regional governments to the federal state, fundamentally altering Nigeria's fiscal federalism (Arowolo, 2011).

Key legal instruments, such as the Petroleum Decree of 1969 and the Land Use Decree of 1978, entrenched federal ownership of oil resources and stripped subnational governments of meaningful control over revenue-generating assets. Concurrently, the derivation principle was progressively reduced—from 50 percent in the early post-independence years to as low as 1.5 percent by the late 1980s (Suberu, 2001). These changes reflected deliberate political choices aimed at strengthening the federal center and enabling military elites to allocate resources strategically across regions.

Revenue allocation commissions established during this period, including the Dina Commission (1968) and the Aboyade Commission (1977), introduced increasingly complex formulas incorporating criteria such as equality of states, population, land mass, and social development. While presented as objective and technocratic, these formulas effectively legitimized fiscal centralization and expanded federal discretion over revenue distribution (Ekpo, 2004).

From a political economy perspective, military centralization of revenue allocation served two key functions. First, it allowed ruling elites to finance expansive patronage networks essential for regime survival. Second, it weakened regional power bases that could challenge central authority. Fiscal federalism, in this sense, was subordinated to the imperatives of authoritarian governance.

The Fourth Republic and the Persistence of Fiscal Centralization

The transition to democratic rule in 1999 raised expectations that Nigeria would restore fiscal federalism and enhance subnational autonomy. The 1999 Constitution formally recognized Nigeria as a federation and established the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) to oversee revenue sharing. However, despite these institutional reforms, the underlying structure of fiscal centralization remained largely intact.

Although derivation was increased to 13 percent for oil-producing states, this adjustment fell short of addressing longstanding grievances over resource control and environmental degradation in the Niger Delta (Obi, 2010). Moreover, the federal government retained control over the most lucrative revenue sources, while states and local governments continued to depend overwhelmingly on statutory allocations from the federation account.

In practice, revenue allocation in the Fourth Republic has continued to reflect elite bargaining rather than fiscal rationality. Political elites at both federal and state levels have adapted to the centralized system, using federal allocations to finance political competition and sustain patronage networks (Lewis, 2011). As a result, fiscal dependence has deepened, with many states neglecting internally generated revenue and prioritizing access to federal power.

Recurring debates over restructuring, resource control, and constitutional reform underscore the unresolved nature of Nigeria's fiscal question. Yet, repeated national conferences and reform proposals have produced limited outcomes, largely because they fail to confront the elite interests embedded in the existing revenue allocation regime (Mustapha, 2014).

Historical Continuities and the Roots of Crisis

A central insight from this historical analysis is the remarkable continuity in Nigeria's revenue allocation politics despite regime changes. While the principles and formulas have evolved, the core logic of fiscal centralization and elite control has persisted. Revenue allocation has consistently functioned as a mechanism for managing political coalitions and distributing rents rather than promoting fiscal autonomy or development.

This historical trajectory reinforces the argument advanced in the theoretical framework: Nigeria's crisis of fiscal federalism is not accidental or purely technical. It is the outcome of a long-standing political settlement in which elite interests are deeply invested in centralized revenue control. Any meaningful reform must therefore grapple with these historical and political realities rather than relying solely on institutional redesign.

Elite Politics and Fiscal Centralization in Nigeria

Fiscal centralization in Nigeria cannot be adequately explained by constitutional design or economic efficiency alone. Rather, it is best understood as the outcome of sustained elite political strategies aimed at controlling access to state resources and managing political competition. Revenue allocation has become a central mechanism through which political elites consolidate power, distribute patronage, and stabilize governing coalitions. In this context, fiscal centralization is not a policy failure but a politically rational arrangement that serves elite interests.

Oil Rents, Elite Bargaining, and Central Control

The dominance of oil revenues in Nigeria's political economy has profoundly shaped elite behavior and fiscal outcomes. Oil rents are centrally collected, externally generated, and relatively detached

from domestic productive activity. This structural feature encourages intense elite competition for control of the federal government, which functions as the primary gatekeeper of national wealth (Ross, 2012). Consequently, revenue allocation operates as a distributive arena in which elites bargain over access to oil rents rather than as a mechanism for promoting fiscal responsibility or development.

Elite bargaining over revenue allocation is often framed in formal institutional terms—such as constitutional debates, revenue allocation commissions, and legislative negotiations—but is equally driven by informal networks and patronage relationships. Federal elites use control over fiscal transfers to reward loyal subnational actors, neutralize political opposition, and maintain regional alliances. In turn, state-level elites largely accept fiscal dependence on the center, as it provides predictable access to resources without the political costs associated with taxation and internal revenue mobilization (Lewis, 2011).

This elite-driven fiscal arrangement has contributed to what scholars describe as a “rentier political culture,” in which political competition centers on capturing distributive authority rather than improving governance performance (Watts, 2004). Fiscal centralization thus reinforces a political logic that prioritizes access to rents over accountability, efficiency, or development.

Federal Dominance and the Weakening of Subnational Autonomy

One of the most significant consequences of elite-driven fiscal centralization is the erosion of subnational autonomy. Although Nigeria’s constitution assigns responsibilities to states and local governments, it provides them with limited independent revenue sources. The federal government controls the most buoyant tax bases—particularly petroleum profits tax, royalties, and customs

revenues—while subnational governments rely overwhelmingly on federally allocated funds (Arowolo, 2011).

Elite theory helps explain why this imbalance persists. Federal elites benefit directly from centralized revenue control, as it enhances their leverage over subnational governments. Access to federal allocations becomes a powerful instrument for influencing state-level political outcomes, including electoral competition, party alignment, and policy compliance. As a result, fiscal dependence undermines the capacity of states to act autonomously or challenge federal authority.

At the same time, subnational elites are not merely passive victims of fiscal centralization. Many state governors and local political leaders actively participate in sustaining the centralized system because it offers opportunities for rent extraction with minimal accountability. Dependence on federal transfers reduces the incentive to develop internally generated revenue, which would require stronger taxation systems and greater responsiveness to local citizens (Suberu, 2001). In this way, elite interests at multiple levels of government converge to reproduce fiscal centralization.

Revenue Allocation Institutions and Elite Capture

Institutions designed to regulate revenue allocation—such as the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC)—operate within a political environment shaped by elite dominance. While these institutions are formally tasked with promoting fairness and efficiency, their recommendations are often constrained by political considerations and elite bargaining. Changes to revenue allocation formulas typically reflect negotiated compromises among powerful actors rather than objective assessments of fiscal need or developmental priorities (RMAFC, 2018).

Elite capture of fiscal institutions limits the transformative potential of reform initiatives. For example, repeated calls for increased derivation, fiscal decentralization, and restructuring have been acknowledged in official discourse but rarely implemented in ways that significantly alter the balance of fiscal power. Instead, reforms tend to be incremental, symbolic, or selectively applied to manage political pressure without disrupting elite control (Mustapha, 2014).

This pattern underscores a key insight of political economy theory: institutions do not operate independently of power relations. In Nigeria, revenue allocation institutions function as arenas for elite negotiation rather than as autonomous regulatory bodies. As a result, fiscal centralization persists even in the face of widespread recognition of its dysfunction.

Centralization, Patronage, and Democratic Accountability

Fiscal centralization has also had far-reaching implications for democratic accountability in Nigeria. In theory, fiscal federalism enhances accountability by linking public spending to local taxation and citizen oversight. In practice, Nigeria's centralized revenue system weakens this relationship. Since subnational governments rely primarily on federal transfers, political accountability shifts upward toward the federal center rather than downward toward citizens (Oates, 1972).

Elite-controlled revenue allocation thus facilitates the expansion of patronage politics. Federal allocations become resources for financing political campaigns, rewarding loyal supporters, and sustaining clientelist networks. This dynamic reduces the pressure on political leaders to deliver public goods or pursue developmental policies, contributing to poor governance outcomes and persistent underdevelopment (Lewis, 2011).

Moreover, fiscal centralization exacerbates political instability by intensifying competition for federal power. Elections at the national level take on existential significance because control of the federal state determines access to national resources. This high-stakes political environment fuels electoral violence, elite fragmentation, and governance crises, further undermining democratic consolidation.

Elite Politics and the Reproduction of Fiscal Crisis

The persistence of fiscal centralization in Nigeria reflects a broader pattern of elite reproduction. Political elites adapt to changing institutional contexts while preserving core structures that secure their access to resources. Even transitions from military to civilian rule have not fundamentally altered the centralized fiscal order, underscoring the resilience of elite interests embedded within Nigeria's revenue allocation system (Suberu, 2001).

This analysis reinforces the central argument of the article: Nigeria's crisis of fiscal federalism is rooted in elite politics rather than institutional design alone. Revenue allocation remains a site of elite contestation in which power, not policy efficiency, determines outcomes. As long as elite incentives remain aligned with fiscal centralization, meaningful reform will remain elusive.

Revenue Allocation, Inequality, and Intergovernmental Relations in Nigeria

One of the most visible outcomes of Nigeria's centralized revenue allocation system is the persistence of deep regional, social, and developmental inequalities. While revenue allocation is often justified as a redistributive mechanism aimed at promoting national cohesion and balanced development, its actual operation has frequently produced the opposite effect. Rather than reducing disparities, the existing fiscal arrangement has entrenched uneven

development, intensified regional grievances, and strained intergovernmental relations. These outcomes are closely tied to the political logic of elite-driven fiscal centralization discussed in the preceding sections.

Regional Inequality and Uneven Development

Nigeria's revenue allocation system has struggled to address structural inequalities among its regions. Although allocation formulas incorporate criteria such as equality of states, population, and social development, these measures have not translated into equitable developmental outcomes. States with limited economic capacity remain heavily dependent on federal transfers, yet these transfers are often insufficient to overcome historical disadvantages or stimulate sustainable development (Ekpo, 2004).

Paradoxically, some of the most resource-rich regions in Nigeria, particularly oil-producing areas of the Niger Delta, continue to experience high levels of poverty, environmental degradation, and infrastructural neglect. This contradiction highlights a fundamental flaw in Nigeria's revenue allocation regime: the disconnection between resource extraction and local development. While oil revenues constitute the backbone of the national economy, the communities from which these resources are extracted receive limited direct benefits, reinforcing perceptions of injustice and exploitation (Watts, 2004; Obi, 2010).

Elite politics further compounds this inequality. Revenue allocated to states does not automatically translate into improved welfare outcomes, as elite capture and patronage politics divert public resources away from development priorities. In this context, inequality is not merely a fiscal problem but a political one, shaped by how elites allocate and utilize public funds.

The Derivation Principle and the Politics of Resource Control

The derivation principle occupies a central place in debates on revenue allocation and inequality. Advocates of increased derivation argue that resource-producing states should retain a larger share of revenues to address environmental damage, infrastructural deficits, and developmental needs. Opponents, however, contend that excessive derivation would undermine national solidarity and disadvantage less-endowed states (Suberu, 2001).

The current 13 percent derivation provision represents a political compromise rather than a resolution of these competing claims. While it has increased revenues accruing to oil-producing states, it has not significantly altered the underlying structure of fiscal centralization. More importantly, derivation has become an elite-mediated instrument, with political leaders framing resource control demands in popular terms while negotiating outcomes that preserve federal dominance (Mustapha, 2014).

As a result, derivation has not fully addressed inequality or mitigated conflict in the Niger Delta. Instead, it has become embedded in a broader system of elite bargaining, where fiscal concessions are used to manage dissent rather than promote structural transformation.

Intergovernmental Relations and Fiscal Dependence

Nigeria's revenue allocation system has also profoundly shaped intergovernmental relations, particularly the relationship between the federal government and subnational units. In theory, federalism предполагает cooperation and coordination among levels of government. In practice, fiscal dependence has skewed intergovernmental relations in favor of the federal center, undermining the autonomy and bargaining power of states and local governments.

Monthly distributions from the Federation Account Allocation Committee (FAAC) have become the primary arena of fiscal interaction between the federal and subnational governments. These meetings symbolize the dependence of states on centrally distributed revenues and reinforce the hierarchical nature of Nigeria's federal system. Rather than functioning as partners in governance, states often operate as fiscal clients of the federal government (Arowolo, 2011).

This dependence weakens intergovernmental cooperation and encourages compliance over collaboration. States that rely heavily on federal transfers are less likely to challenge federal policies or pursue independent development strategies. Consequently, intergovernmental relations are characterized by vertical dependence rather than horizontal coordination, limiting the effectiveness of Nigeria's federal system.

Local Governments and the Deepening of Fiscal Inequality

Fiscal centralization has had particularly severe implications for local governments, which occupy the lowest tier of Nigeria's federal structure. Although constitutionally recognized, local governments lack meaningful fiscal autonomy and are often subject to control by state governments through mechanisms such as joint state–local government accounts. This arrangement has further diluted accountability and constrained grassroots development (Ekpo, 2004).

Elite capture at the state level exacerbates these challenges. State political elites frequently appropriate funds meant for local governments, reinforcing inequality at the subnational level and undermining service delivery. As a result, local governments struggle to fulfill their constitutional responsibilities, contributing to poor governance outcomes and citizen disillusionment with the state.

Revenue Allocation and Conflict in Intergovernmental Relations

The distributive nature of Nigeria's revenue allocation system has also fueled intergovernmental conflict. Disputes over revenue-sharing formulas, derivation, and fiscal responsibilities frequently generate tensions among federal, state, and local governments. These conflicts are often expressed through legal challenges, political protests, and demands for constitutional reform.

In oil-producing regions, fiscal grievances have intersected with environmental and social issues to produce sustained conflict and militancy. While these conflicts are often portrayed as grassroots movements, they are frequently mediated by elite actors who leverage popular discontent to renegotiate fiscal arrangements or secure political concessions (Watts, 2004).

These dynamics underscore the limitations of Nigeria's current revenue allocation system as a tool for conflict management. Rather than fostering integration and stability, elite-driven fiscal centralization has contributed to fragmentation and contestation within the federation.

Inequality, Intergovernmental Relations, and the Crisis of Federalism

Taken together, the relationship between revenue allocation, inequality, and intergovernmental relations highlights the depth of Nigeria's fiscal federalism crisis. Centralized revenue control has entrenched dependency, weakened subnational autonomy, and failed to deliver equitable development outcomes. At the same time, elite mediation of fiscal relations has transformed revenue allocation into a mechanism for managing political tensions rather than resolving structural inequalities.

This analysis reinforces the central argument of the article: Nigeria's revenue allocation challenges cannot be addressed through technical reforms alone. Without confronting the elite interests that sustain fiscal centralization and mediate intergovernmental relations, inequality and conflict will continue to define Nigeria's federal experience.

Comparative Discussion: Nigeria in Resource-Dependent Federal States

Nigeria's experience with revenue allocation, elite politics, and fiscal centralization is not unique; it reflects patterns observed in other resource-dependent federal states across the Global South. Countries with abundant natural resources often face the dual challenges of centralized revenue control and elite capture, which complicate the principles of fiscal federalism and exacerbate inequality. By situating Nigeria within this broader comparative framework, this section highlights lessons that transcend national boundaries and underscores the global relevance of elite-driven fiscal dynamics.

Resource Dependence and Fiscal Centralization

A common feature of resource-dependent federations is the centralization of resource revenues. Countries such as Venezuela, Malaysia, and Indonesia similarly rely on centrally collected rents from oil, gas, or mineral resources, which are then distributed to subnational units. As in Nigeria, this structure often creates fiscal dependence, weakens local governance, and concentrates political power in the hands of central elites (Ross, 2012; Bird & Vaillancourt, 2006).

In Venezuela, for instance, oil revenues constitute over half of national government income, and the federal government exerts significant control over transfers to states. This has generated similar patterns of elite bargaining and regional inequality, with resource-

rich regions remaining politically dependent on the central government for fiscal survival. Malaysia presents a parallel case, where oil royalties to resource-producing states are heavily negotiated and tied to federal political priorities (Tan, 2004).

These comparative examples illustrate a critical insight: resource dependence intensifies the stakes of fiscal centralization. When central governments control the most lucrative revenue streams, subnational units become financially and politically subordinate, reproducing the dynamics observed in Nigeria.

Elite Capture and Political Settlements

Comparative scholarship also highlights the role of elite politics in shaping fiscal outcomes. Elite capture is not a consequence of institutional design alone; it is embedded in broader political settlements that determine how resources are allocated. In resource-dependent states, dominant elites at the center often negotiate informal arrangements with subnational elites to maintain political stability, co-opt opposition, and manage regional grievances (Acemoglu & Robinson, 2012; Watts, 2004).

In Nigeria, elite capture manifests through federal control of oil revenues and the strategic use of revenue allocation to reward political loyalty. Similar dynamics are evident in Indonesia's oil-rich provinces, where central elites distribute funds through discretionary mechanisms while provincial governments rely on transfers to finance local development and political patronage (Fitriani, Hofman, & Kaiser, 2005). These comparative examples suggest that centralized fiscal control coupled with elite mediation is a common feature of resource-dependent federations, with profound implications for development and governance.

Fiscal Federalism and Inequality

Resource dependence also exacerbates inequalities across regions. In Nigeria, revenue centralization has failed to translate resource wealth into equitable development, particularly in the Niger Delta. Comparative cases reinforce this pattern: in Brazil, despite the constitutional framework for fiscal federalism, resource-rich states often experience uneven development due to central control over resource rents and unequal distribution mechanisms (Shah & Thompson, 2004). Similarly, in Malaysia, the distribution of oil and gas revenues has historically favored certain states over others, reflecting federal priorities and political calculations (Tan, 2004).

These cases illustrate that the challenge of translating resource wealth into equitable outcomes is not purely technical. Rather, it reflects the political logic of elite-mediated revenue allocation, where the central government leverages resources to maintain power, manage opposition, and stabilize political coalitions. Nigeria's experience, therefore, aligns closely with broader trends in resource-dependent federal systems.

Implications for Theory and Policy

The comparative perspective also reinforces the theoretical contributions of this study. By integrating political economy and elite theory, it highlights that revenue allocation is fundamentally a political process shaped by power relations rather than a neutral technical problem. Across resource-dependent federal states, elites consistently exploit centralized fiscal arrangements to consolidate authority, distribute rents, and stabilize regimes, creating persistent tensions between national cohesion, subnational autonomy, and developmental equity.

Reform Prospects and Policy Implications

The analysis presented in this study underscores that Nigeria's fiscal federalism challenges are deeply political rather than merely technical. Reform efforts have historically focused on adjusting revenue allocation formulas, increasing derivation percentages, or creating new institutions, yet these measures have often failed to address the underlying elite incentives that sustain fiscal centralization. For reforms to be meaningful, they must target both institutional design and the political economy in which these institutions operate.

Institutional and Legal Reforms

Institutionally, there is a need for stronger mechanisms that enhance transparency, accountability, and equitable revenue distribution. The Revenue Mobilization, Allocation and Fiscal Commission (RMAFC), for instance, could be empowered to implement binding recommendations rather than merely advisory ones, with explicit mechanisms to ensure compliance by federal and state governments. Legal reforms should also consider clarifying the fiscal responsibilities of federal, state, and local governments to reduce ambiguity and conflict. Codifying resource revenue sharing more robustly could reduce elite manipulation of discretionary allocations (Suberu, 2001; Mustapha, 2014).

Furthermore, revisiting the derivation principle and integrating objective measures of environmental impact, population, and infrastructure needs could improve fairness. However, these adjustments must be accompanied by institutional safeguards that prevent elite capture, ensuring that allocations translate into tangible development outcomes rather than patronage.

Fiscal Decentralization and Subnational Capacity Building

A critical reform avenue is enhancing fiscal decentralization by strengthening subnational governments' capacity to generate internally sourced revenue. States and local governments should be incentivized to develop robust tax systems, improve public financial management, and reduce dependency on federal transfers. Building subnational capacity would not only enhance autonomy but also increase accountability, as political leaders would be directly answerable to local constituents (Ekpo, 2004).

Complementary measures include improving fiscal reporting and audit systems, introducing performance-based allocations, and ensuring equitable access to federal funds. These measures could help align revenue allocation with developmental objectives rather than purely political priorities.

Addressing Elite Incentives

Reforms must also target the political logic that sustains centralization. Elite incentives to maintain control over resources are deeply entrenched, making purely technocratic adjustments insufficient. Effective reform requires creating a political environment where elites perceive benefits in promoting equitable revenue distribution, reducing dependency, and supporting decentralized governance. This could involve restructuring political party incentives, strengthening intergovernmental coordination, and enhancing civil society engagement to hold elites accountable (Acemoglu & Robinson, 2012).

Conflict Mitigation and Inclusive Governance

Finally, reform must address the conflict dimension inherent in Nigeria's revenue allocation system. Structured mechanisms for negotiation, dispute resolution, and participatory budgeting could

reduce tensions between the federal center and subnational units. Involving diverse stakeholders—including communities in resource-producing regions, civil society actors, and technocrats—can ensure that revenue allocation promotes development and reduces grievances that have historically fueled unrest in regions such as the Niger Delta (Watts, 2004; Obi, 2010).

Taken together, these reform strategies suggest that meaningful change requires a synergistic approach: technical improvements in formulas and institutions, capacity-building at subnational levels, and the transformation of elite political incentives. Only by addressing these dimensions simultaneously can Nigeria move toward a fiscal federalism system that is equitable, transparent, and development-oriented.

Conclusion

This study has examined the politics of revenue allocation in Nigeria, situating it within a broader framework of fiscal federalism, elite theory, and political economy. The analysis demonstrates that Nigeria's persistent fiscal centralization, intergovernmental inequality, and regional disparities are not accidental; they are the outcome of a long-standing political settlement in which elites at both federal and subnational levels actively shape revenue allocation to consolidate power and distribute rents.

Historically, revenue allocation evolved from the colonial derivation system through post-independence adjustments, military centralization, and the present Fourth Republic arrangements. Across these periods, political elites have maintained control over resource rents, often subordinating principles of equity, development, and accountability to the imperatives of regime survival and coalition management. The consequences of this elite-driven system are profound: entrenched regional inequality, subnational fiscal

dependence, weak local governance, and frequent conflict over resource distribution.

Comparative analysis further illustrates that Nigeria's experience is emblematic of challenges faced by resource-dependent federal states globally. Centralized revenue control, elite capture, and the politicization of fiscal institutions are common features in countries such as Venezuela, Indonesia, and Malaysia. These cases underscore the universality of the political dynamics observed in Nigeria while highlighting the need for reforms that address the incentives driving elite behavior, not just technical deficiencies.

The study concludes that sustainable fiscal reform in Nigeria requires a multifaceted approach. Institutional and legal reforms, subnational capacity-building, conflict mitigation mechanisms, and strategies to realign elite incentives are all necessary components of a functional and equitable revenue allocation system. Without addressing the political foundations of fiscal centralization, technical adjustments alone will continue to produce limited and uneven results.

Ultimately, revenue allocation in Nigeria is a mirror reflecting the broader challenges of federal governance in resource-dependent states: the tension between central authority and subnational autonomy, the interplay of wealth and power, and the enduring influence of political elites in shaping institutional outcomes. By acknowledging and addressing these realities, policymakers and scholars can move toward a fiscal federalism system that not only stabilizes political relations but also promotes inclusive development, social equity, and democratic accountability.

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