

NAVIGATING FISCAL FEDERALISM IN NIGERIA: ISSUES IN REVENUE ALLOCATION AND INTERGOVERNMENTAL DYNAMICS

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ABSTRACT

This study examines the challenges of fiscal federalism, revenue allocation, and intergovernmental relations in Nigeria, focusing on their effects on governance and development. Using content analysis as the research method, the study analyzed existing literature to assess how fiscal structures and revenue sharing influence cooperation among the federal, state, and local governments. The findings shows that Nigeria's fiscal federalism is marked by unequal revenue distribution, excessive central control, corruption, and weak institutional capacity, which hinder effective policy implementation and service delivery. Overdependence on oil revenue and poor intergovernmental coordination further contribute to inefficiency and regional disparities. The study recommends reviewing the revenue allocation formula to ensure fairness, promoting fiscal decentralization, diversifying revenue sources, and strengthening institutional frameworks. It also emphasizes the need for transparency, accountability, and effective mechanisms for intergovernmental cooperation and dispute resolution to enhance governance and achieve balanced national development.

INTRODUCTION

Nigerian federalism, much like other federal systems of government, is characterized by its diversity in terms of ethnic groups, languages, cultures, political affiliations, and the constant struggle for political power. To address the need to accommodate and serve these diverse elements at the grassroots level, local governments were established and therefore became the third tier of administration with a degree of autonomy. This autonomy allows for interactions with both the central and state governments. Key characteristics of the federal government include the independence and separation of each level of government, the principle of non-interference in the distribution of powers, and the presence of a supreme court and a court of law to act as mediators in intergovernmental disputes (as described by Fatile and Adejuwon in 2009 cited in Ijimakinwa et al., 2015).

Ezeudu (2023) argues that Nigeria's fiscal federalism is highly complex and deeply connected to the nation's developmental outcomes, as it shapes the distribution of resources, governance efficiency, and intergovernmental relations. He contends that disparities in revenue allocation among the country's geo-political zones have created significant imbalances in regional development, underscoring the urgent need for a more equitable and transparent revenue-sharing formula. Effective collaboration between federal, state, and local governments is identified as a

crucial factor for successful policy implementation and improved service delivery. The author also maintains that weak institutional capacity and the absence of effective conflict-resolution mechanisms intensify intergovernmental disputes, thereby hindering cooperative governance.

Intergovernmental relations (IGR) provide a platform for various legal, political, and administrative relationships between different levels of government, each with varying degrees of autonomy. IGR encompasses interactions between the national and regional levels, as well as among the federal, state, and local governments, as defined by Ajulor and Okewale (2011, cited in Ijimakinwa et al., 2015). In simple terms, there is a pressing need to enhance the incentives for government agencies at all levels of authority to collaborate in shaping their policies and delivering services more effectively. Simultaneously, there is a need to build the necessary capacity to support such future intergovernmental cooperation. Nigeria's federal system is distinctive, shaped by a historical and political evolution that has crafted a governance framework where each tier of government possesses specific roles, responsibilities, and revenue-generating capacities. The allocation of revenue to local governments, as the tier closest to the people, plays an indispensable role in the socio-economic development of the nation. It is a mechanism for ensuring that resources are distributed equitably and effectively to cater to the needs of citizens at the grassroots level (Elaigwu et al., 2014).

Despite the constitutional recognition of Nigeria as a federal state with distinct tiers of government, the practice of fiscal federalism in the country remains fraught with persistent challenges. The recurrent disputes over revenue allocation, intergovernmental relations, and fiscal autonomy have hindered effective governance and equitable development. The existing revenue-sharing formula has often been criticized for promoting imbalance among the federating units, thereby creating inequality in resource distribution and developmental outcomes across regions. Furthermore, weak institutional capacity, lack of transparency in fiscal management, and poor coordination among the federal, state, and local governments have continued to impede the realization of the objectives of true federalism. The inability of intergovernmental mechanisms to effectively manage disputes and promote cooperation among the tiers of government has also weakened service delivery and accountability. Consequently, there is a need to critically examine the challenges inherent in Nigeria's fiscal federalism and intergovernmental relations, with a view to identifying strategies that can promote equity, efficiency, and sustainable development.

To achieve this, the study seeks to examine the challenges of fiscal federalism, revenue allocation, and intergovernmental relations in Nigeria. Specifically, it aims to analyze the nature and structure of fiscal federalism and its impact on intergovernmental relations in Nigeria; examine the challenges of revenue allocation among the federal, state, and local governments; assess the implications of intergovernmental relations on policy implementation and service delivery; identify mechanisms that can promote equitable revenue distribution and strengthen

intergovernmental cooperation; and recommend policy measures aimed at improving fiscal management, institutional capacity, and dispute resolution frameworks within Nigeria's federal system.

This study adopts a content analysis approach as its research methodology. The method involves a systematic examination and interpretation of secondary data obtained from relevant scholarly works, government publications, journal articles, books, policy documents, and credible online sources on fiscal federalism and intergovernmental relations in Nigeria. Through qualitative analysis, the study identifies key themes, patterns, and relationships concerning revenue allocation, governance structure, and intergovernmental collaboration.

LITERATURE REVIEW

This section presents a thematic review of existing literature on fiscal federalism, revenue allocation, and intergovernmental relations in Nigeria. The thematic approach allows the discussion to be organized around key issues and patterns that emerge from previous studies.

CONCEPTUAL CLARIFICATION

Federalism

Udo, (2019); Federalism originates from the Latin word "foedus," which means covenant. It is a political concept where a group of individuals are united by a covenant with a governing representative head. Additionally, federalism refers to a system of government in which sovereignty is constitutionally divided between a central governing authority and constitutional political units, such as states and local governments. In essence, federalism signifies the presence of multiple levels of government within one country, each possessing distinct expenditure responsibilities and taxing powers. It primarily concerns the structure of government in a multilevel sense, rather than focusing on a specific government level in the performance of governmental functions. Many believe that the concept of intergovernmental relations is closely associated with federalism because the study of federalism, at its empirical level, heavily emphasizes the examination of intergovernmental relations (Bamidele, 1980).

Fiscal Federalism

Fiscal federalism refers to the fiscal relations and transactions between the three levels of government. According to Herber (1979 cited in Akhere, et al, 2015), it involves the division of fiscal powers between different levels of government in a federation. It is a system where a country has multiple levels of government, each with distinct expenditure responsibilities and taxing authority (Okigbo, 1969 cited in Akhere, et al, 2015). Fiscal federalism provides a framework for assigning responsibilities to different government levels and the necessary fiscal tools for carrying

out these functions. As Sharma (1995 cited in Akhere, et al, 2015) views it, fiscal federalism comprises a set of guiding principles that assist in designing financial relations between the national and sub-national levels of government. Therefore, fiscal federalism encompasses the system of revenue generation, allocation, and redistribution among the constituent units in a federal system, allowing for regional fiscal autonomy.

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

Local Government

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

Intergovernmental Relations

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

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

Revenue allocation

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

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

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

HISTORICAL DEVELOPMENT OF FISCAL FEDERALISM IN NIGERIA

Historically, Nigeria initially operated as a unitary state, a situation attributed by some scholars to the 1914 amalgamation. The evolution of federalism in Nigeria began when the former British colony was restructured into a federation of three regions under Governor Arthur Richards, who succeeded Bernard Bourdillon in 1939. This reorganization, formalized in 1946, laid the foundation for federalism in the country. The amalgamation of the northern and southern protectorates by the British was primarily driven by economic interests. With the introduction of the Macpherson Constitution of 1951 and the Lyttleton Constitution of 1954, Nigeria became a federal state with significant regional autonomy. During the First Republic, the distribution of power heavily favored the regions, as observed by Ewetan (2012, as cited in Ezeudu, 2023).

Since 1946, the issue of revenue allocation in Nigeria has remained highly controversial. Offiong (2012, as cited in Odigwe & Aibieyi, 2015) noted that derivation principles were progressively reduced—from 100% in 1946 to 50% following the Philipson Commission's recommendation in 1951, and maintained by the Raisman Commission in 1958. This rate persisted until 1970, when General Gowon reduced it to 45%. Subsequent administrations made further reductions: to 20% in 1975, 25% under Obasanjo/Yar'Adua, 5% during Shagari's regime in 1981, and 1.5% under Buhari. Babangida later increased it to 3%, while activism led by Ken Saro-Wiwa pressured the government to raise it to 13%, as enshrined in the 1999 Constitution.

The military intervention of 1966 further reshaped Nigeria's fiscal structure through several decrees, notably Decree No. 9 of 1971 and Decree No. 51 of the 1969 Petroleum Act, which vested ownership of solid minerals and petroleum resources in the federal government. These decrees ensured that all offshore rents and royalties accrued to the federal government. Additionally, Decree No. 13 of 1970 enabled the central government to consolidate financial control, ostensibly to address post-civil war reconstruction, but it simultaneously reduced fiscal autonomy at the subnational level. Consequently, this centralization of fiscal powers undermined internal revenue generation and encouraged overdependence on oil, neglecting the agricultural sector and hindering broad-based economic development (Odigwe & Aibieyi, 2015, as cited in Ezeudu, 2023).

Fiscal federalism, according to Kayode (2014, as cited in Odigwe & Aibieyi, 2015), seeks to manage diversity and promote equity in a heterogeneous society by regulating how revenue is generated, allocated, and redistributed among different levels of government. True development occurs when a nation experiences progress in infrastructure, technology, and overall living standards of its citizens.

Ewetan (2012) fiscal federalism in Nigeria has evolved under a system where fiscal autonomy and responsibility remain largely centralized, undermining the essence of true federalism. Using descriptive and analytical methods based on secondary data, the study critically examines the evolution, structure, and practices of Nigeria's fiscal federalism. Ewetan argues that despite Nigeria's federal constitution, the federal government maintains dominance in revenue control and tax administration, leaving subnational governments heavily dependent on allocations from the Federation Account.

The study identifies several factors inhibiting effective fiscal federalism, including federal dominance in revenue sharing, prolonged military rule, and over-reliance on oil revenue. The author concludes that for Nigeria to achieve genuine fiscal federalism, the federal government must devolve greater taxing powers to the states to promote fiscal independence and healthy inter-state competition. A major strength of the study lies in its clear analytical exposition of the centralization problem within Nigeria's fiscal system. However, a key limitation is the absence of empirical data or quantitative analysis, which could have strengthened the validity of its findings. Nonetheless, Ewetan's work provides valuable insight into the structural imbalance of Nigeria's fiscal framework and offers a compelling argument for decentralization and fiscal reform.

Ezeudu (2023), fiscal federalism and intergovernmental relations in Nigeria are hindered by unequal revenue allocation, which causes regional imbalance and weak governance. Using both qualitative and quantitative methods, he emphasizes the need for equitable resource distribution, stronger institutions, and better cooperation among government levels. The study's strength lies in its broad analytical approach, while its limitation is the reliance on secondary data.

THE IMPACT FISCAL FEDERALISM ON INTERGOVERNMENTAL RELATIONS IN NIGERIA

Fiscal federalism significantly impacts intergovernmental relations in Nigeria by creating a competitive and often conflict-prone dynamic over revenue sharing, leading to a lopsided fiscal arrangement that favors the federal government. This has resulted in a mismatch between revenue sources and the responsibilities of state and local governments, hindering their capacity for independent development and creating a perpetual dependence on federal funds. The result is suspicion, apathy, and a lack of consistent intergovernmental cooperation.

Ezeudu (2023) argues that, fiscal federalism has a profound impact on intergovernmental relations in Nigeria, influencing how resources are distributed, how policies are implemented, and how different tiers of government interact in the governance process. The study maintains that the unequal distribution of revenue among Nigeria's geo-political zones has created significant tensions and imbalances in development, which in turn strain intergovernmental relations. This fiscal disparity not only limits the capacity of subnational governments to effectively deliver public services but also fosters competition and conflict over resource control and allocation.

Agidi (2025) argues that intergovernmental relations in Nigeria are largely shaped and strained by the contentious issue of revenue allocation, which remains one of the most persistent challenges to effective governance and national development. He explains that Nigeria's federal system, comprising the federal government, 36 states, the Federal Capital Territory, and 774 local governments, was designed to promote cooperation and coordination among the tiers of government. However, in practice, the system has been undermined by imbalances in fiscal distribution and dependence on federally generated revenues. He maintains that although the 1999 Constitution (as amended) clearly stipulates how revenues should be distributed among the different levels of government, implementation has been fraught with disputes, inequalities, and inefficiencies. The current revenue-sharing formula, in his view, favors the federal government disproportionately, leaving state and local governments financially weak and overly dependent on federal allocations. This over-centralization of fiscal power not only limits the autonomy of subnational governments but also hampers effective service delivery and grassroots development.

Omodero, Azubike, and Ekwe (2018), Nigeria continues to face significant challenges in achieving sustainable economic development despite the substantial revenue allocated monthly to the three tiers of government. Using time series data from the Central Bank of Nigeria Statistical Bulletin (1981–2016) and employing the Ordinary Least Squares (OLS) technique, the study investigates the relationship between revenue allocation and economic development, measured by per capita income (PCI). The findings indicate that allocations to the federal and state governments have a negative impact on economic development, while allocations to local governments show a positive

and significant effect on PCI. The authors attribute the weak overall performance to misuse and mismanagement of public funds, highlighting widespread corruption as a key barrier to progress. Consequently, the study recommends the implementation of stricter anti-corruption measures, improved resource management, and enhanced transparency and accountability to ensure that revenue allocations translate into tangible economic growth and sustainable national development.

STRUCTURE OF FISCAL FEDERALISM IN NIGERIA

fiscal federalism in Nigeria, as outlined in Ewetan (2012), revolves around the distribution of fiscal powers and responsibilities among the three tiers of government federal, state, and local. Nigeria's fiscal structure is constitutionally designed to promote financial coordination and accountability; however, in practice, it reflects a high degree of centralization. The federal government dominates revenue generation through control of key tax sources such as petroleum profits tax, company income tax, and customs duties. States and local governments, on the other hand, rely heavily on statutory allocations from the Federation Account, which has limited their fiscal autonomy and capacity to generate internal revenues.

This imbalance in fiscal authority stems from the long history of military rule, which entrenched a centralized administrative and fiscal system. As a result, while the constitution provides for shared responsibilities where certain functions like education, health, and infrastructure are concurrent the resources to execute these responsibilities are unevenly distributed. Fiscal decentralization, a key feature of federalism, has therefore been weakly implemented in Nigeria. Ideally, each level of government should have access to sufficient financial resources to perform its constitutional functions without undue dependence on the federal government. However, the existing revenue allocation framework has created fiscal subordination of subnational units, contradicting the principles of true federalism.

The structure of fiscal federalism in Nigeria, as reflected in Chenge (2024), is anchored on the principle of fiscal decentralization, which seeks to distribute financial powers and responsibilities among the three tiers of government—federal, state, and local. Ideally, this structure is meant to promote efficiency, accountability, and responsiveness in governance by allowing subnational governments to generate revenue and make spending decisions that directly address local needs. However, in practice, Nigeria's fiscal federalism remains heavily centralized, with the federal government exercising dominant control over major revenue sources such as oil, customs duties, and company income taxes. This centralization has constrained the fiscal capacity and autonomy of states and local governments, forcing them to rely largely on statutory allocations from the Federation Account. According to him this fiscal imbalance has resulted in inefficiencies in public spending and weakened the ability of subnational governments to deliver essential services. The Wiseman-Peacock theory adopted in the study underscores that public expenditure should grow in

response to societal needs and fiscal capacity; however, Nigeria's experience shows recurrent expenditure consistently outweighing capital expenditure. This pattern limits investment in infrastructure and development projects that could improve citizens' welfare. The content analysis conducted in the study further reveals that Nigeria's low revenue-to-GDP ratio and poor tax administration have deepened fiscal stress across the tiers of government.

THE PRINCIPLES OF REVENUE ALLOCATION IN NIGERIA

The principles of revenue allocation in Nigeria, often based on criteria like population, equality of states, and derivation, aim to distribute national resources fairly among federal, state, and local governments. Other principles include national interest, even development, and the principle of independent revenues, which allows states to generate their own income. However, the emphasis on these principles has shifted over time, especially with the rise of oil revenue, leading to debates about the fairness of the current allocation formulas.

Edeh, Abah, and Nwoku (2018). The principles of revenue allocation in Nigeria are deeply rooted in the country's federal structure, which seeks to balance the fiscal responsibilities and powers of the various tiers of government—federal, state, and local. In a federation, no level of government is considered inferior to another; each operates as a coordinate and independent entity within its jurisdiction, working collectively to meet the needs of the citizenry. As Wheare (1953) notes, federalism involves the division of powers such that both the general and regional governments are independent and coordinate within their respective spheres. This structure ensures that governance is decentralized, promoting efficiency, inclusivity, and regional development.

Nigeria's economy holds significant potential for future growth, driven by the discovery of new oil wells, abundant raw materials for iron and steel production, and diversification within the oil sector to include products such as fertilizers, liquefied natural gas, and aluminum. These developments present promising opportunities that enhanced productivity and increased revenue generation. However, as Onayemi and Ishola (2009, cited in Tom et al., 2021) emphasize, a nation's wealth is not merely defined by the possession of natural resources but by the productivity of its people and the effectiveness of exchange mechanisms for goods and services.

Despite these potentials, the issue of revenue allocation remains one of the most contentious challenges in Nigeria's fiscal federalism. According to Akhere et al. (2015), the country's 36 states remain heavily dependent on statutory allocations from the federal revenue account to fund their developmental programs. This overreliance has hindered efficient and effective public administration and has been a recurring concern since 1946 as the number of fiscal units continues to grow. Nigeria's administrative evolution—from two protectorates to three regions, then four with the creation of the Midwestern Region, and subsequently expanding to 12, 19, 21, and finally 36 states with 774 local governments—has further complicated the revenue-sharing process.

Additionally, the nation's overdependence on a single product (crude oil) has deepened structural weaknesses and fueled ethnic tensions that persist today.

As noted by Ola and Offiong (1999, cited in Akhere et al., 2015), the revenue allocation formula in Nigeria is structured to determine how national resources are shared among the various levels of government, reflecting the ongoing struggle to balance equity, efficiency, and national unity within the country's fiscal framework.

CHALLENGES OF REVENUE ALLOCATION IN NIGERIA

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

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

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

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

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

oil-producing states. This debate continues, and the allocation of oil revenues remains a significant concern.

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

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

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

EMPIRICAL REVIEW

Revenue allocation in Nigeria has been widely studied, revealing recurring challenges across political, institutional, and economic dimensions. Wali and Bulkachuwa (2019) highlight the persistent contention between oil-producing and non-oil-producing states, noting that corruption, mismanagement, and an unfair allocation formula undermine equity and regional development. Agidi (2025) similarly observes that uneven distribution of revenue among federal, state, and local governments negatively affects national development, although his study relies heavily on secondary sources, limiting empirical depth. Ezeudu (2023) identifies inequalities in fiscal federalism and stresses the need for institutional strengthening, intergovernmental cooperation, and revenue diversification to achieve balanced development. Udoh (2019) focuses on the economic consequences, showing that Nigeria's dependence on oil revenue exposes the economy to macroeconomic instability and hinders sustainable growth, recommending diversification into agriculture, industry, and minerals.

Tom and Ataide (2021) underscore the political nature of revenue allocation and advocate for greater fiscal decentralization, prioritizing national interest, transparency, and equity to promote unity and development. Sylvester and Ade (2018) demonstrate that revenue distribution

significantly influences economic growth and grassroots development, but lack of accountability and transparency undermines its effectiveness. Idris (2024) provides a comparative perspective, analyzing vertical and horizontal allocation in Nigeria, Malaysia, and Brazil, emphasizing the need to adopt best practices to optimize fiscal balance, equity, and sustainable economic growth.

The gaps identified in these studies point to insufficient attention to the practical implications of revenue allocation on service delivery and local development. The researcher aligns with the above authors in recognizing the political, institutional, and economic challenges but emphasizes the necessity of Nigeria-specific empirical data to contextualize recommendations. Furthermore, integrating political and institutional analyses with economic considerations is critical to fully understand and address the impact of fiscal policies and revenue allocation on sustainable national development.

CONTENT ANALYSIS

The reviewed studies provide a comprehensive foundation for analyzing the challenges of fiscal federalism, revenue allocation, and intergovernmental relations in Nigeria. Using content analysis, key themes were derived from the selected works, aligning them with the study's objectives to identify patterns, gaps, and implications for policy and governance.

1. Nature and Structure of Fiscal Federalism and Its Impact on Intergovernmental Relations

The reviewed literature reveals that Nigeria's fiscal federalism is characterized by an imbalance between the federal, state, and local governments, resulting in weak intergovernmental relations. Studies such as Wali and Bulkachuwa (2019) and Tom and Ataide (2021) emphasize that the current structure fosters inequality and central dominance, where the federal government wields excessive fiscal power at the expense of the subnational units. This concentration of resources at the center undermines cooperation, accountability, and effective policy coordination across levels of government. Similarly, Agidi (2025) argues that despite constitutional provisions for fiscal decentralization, the uneven distribution of revenue continues to strain federal relations and hinder national cohesion. These findings collectively indicate that Nigeria's fiscal structure needs reform to enhance horizontal and vertical equity, as well as stronger collaboration among federating units.

2. Challenges of Revenue Allocation Among Federal, State, and Local Governments

Revenue allocation remains a persistent challenge within Nigeria's federal system. Wali and Bulkachuwa (2019) identify corruption, mismanagement, and an unfair allocation formula as major impediments to equitable fiscal distribution. Likewise, Ezeudu (2023) and Idris (2024) highlight structural and institutional weaknesses that perpetuate inequality among regions and tiers of government. Tom and Ataide (2021) further link the issue to the political nature of fiscal decisions, where revenue distribution often reflects sectional and ethnic interests rather than

developmental priorities. Sylvester and Ade (2018) provide econometric evidence that revenue distribution significantly affects national growth, but poor fiscal transparency weakens the developmental impact. Together, these studies underscore systemic flaws such as over centralization, politicization, and corruption as key obstacles to effective revenue allocation in Nigeria.

3. Implications of Intergovernmental Relations on Policy Implementation and Service Delivery

The reviewed works indicate that weak intergovernmental relations negatively influence policy outcomes and service delivery. Agidi (2025) and Ezeudu (2023) note that poor coordination among government levels often leads to policy duplication, inefficiency, and uneven service delivery. The lack of fiscal autonomy and delayed transfers further impede local governments' capacity to deliver essential public goods. Wali and Bulkachuwa (2019) stress that without transparency and accountability, federal allocations do not translate into tangible benefits for citizens, thereby widening the development gap across regions. The studies collectively reveal that improving fiscal coordination and ensuring timely fund disbursement are essential for effective policy implementation and enhanced service delivery.

4. Mechanisms for Promoting Equitable Revenue Distribution and Strengthening Intergovernmental Cooperation

Several authors propose mechanisms to improve Nigeria's fiscal system and strengthen intergovernmental cooperation. Tom and Ataide (2021) advocate for fiscal decentralization guided by principles of equity and national interest, while Ezeudu (2023) calls for revising revenue allocation formulas to ensure fair distribution. Idris (2024) suggests learning from comparative models such as Brazil's decentralized tax-sharing framework and Malaysia's grant-based system to improve fiscal balance. Sylvester and Ade (2018) recommend transparent fiscal practices, institutional accountability, and the implementation of growth-oriented policies to promote equitable development. These mechanisms highlight the need for reform grounded in transparency, institutional strengthening, and the adoption of best international practices adapted to Nigeria's context.

5. Policy Measures for Improving Fiscal Management, Institutional Capacity, and Dispute Resolution

The reviewed studies consistently emphasize the need for reforms that enhance fiscal management and institutional efficiency. Udoh (2019) and Sylvester and Ade (2018) demonstrate that economic instability, particularly due to oil dependence, undermines sustainable fiscal management. They advocate for revenue diversification through investment in agriculture, manufacturing, and other

non-oil sectors. Wali and Bulkachuwa (2019) and Agidi (2025) recommend anti-corruption mechanisms and transparent budgetary processes to build institutional trust. Furthermore, Idris (2024) highlights the importance of adopting comparative fiscal models to strengthen dispute resolution frameworks and promote fiscal harmony among federating units. Collectively, these insights indicate that effective policy reform should integrate institutional strengthening, transparency, and diversification to achieve a more resilient and equitable fiscal system.

FINDINGS

1. **Imbalanced and Overcentralized Fiscal Federalism:**
The federal government controls most national revenue, limiting the fiscal autonomy of state and local governments and weakening intergovernmental relations.
2. **Politicized and Inequitable Revenue Allocation:**
Revenue distribution is influenced by political interests, corruption, and favoritism, leading to inequality between oil-producing and non-oil-producing states.
3. **Weak Intergovernmental Relations:**
Poor coordination and overlapping functions among the three tiers of government undermine policy implementation and effective service delivery.
4. **Institutional Weakness and Lack of Accountability:**
Corruption, mismanagement, and weak oversight mechanisms reduce fiscal efficiency and hinder developmental outcomes.
5. **Overdependence on Oil Revenue:**
Nigeria's heavy reliance on oil revenue exposes the economy to global shocks, creating fiscal instability and limiting sustainable growth.
6. **Need for Fiscal Reforms through Comparative Learning:**
Comparative insights from Malaysia and Brazil highlight the potential of decentralized tax systems and performance-based grants to improve Nigeria's fiscal balance.
7. **Need for Transparency and Accountability in Fiscal Management:**
Strengthening transparency, data-driven decision-making, and public accountability can promote fair and efficient resource allocation.

SUMMARY AND CONCLUSION

The studies reveals that fiscal federalism, revenue allocation, and intergovernmental relations in Nigeria have issues of imbalance, political interference, and institutional weakness. Despite multiple reforms and constitutional provisions, the current revenue allocation framework continues to favor the federal government, leaving state and local governments fiscally constrained and unable to fulfill their developmental responsibilities. This has perpetuated inequality,

weakened intergovernmental cooperation, and hindered effective policy implementation and service delivery.

The findings further highlight that corruption, overdependence on oil revenue, and lack of transparency in fiscal management remain critical barriers to achieving equitable and sustainable development. Comparative insights from other federal systems, such as Malaysia and Brazil, demonstrate that adopting decentralized, transparent, and performance-driven fiscal frameworks can strengthen Nigeria's fiscal structure and promote balanced growth.

In conclusion, achieving effective fiscal federalism in Nigeria requires a comprehensive restructuring of the revenue allocation system to enhance equity, transparency, and accountability. Strengthening institutional capacity, promoting revenue diversification, and establishing efficient intergovernmental coordination and dispute resolution mechanisms are essential for improving service delivery and advancing national development. Ultimately, a cooperative and transparent fiscal framework rooted in fairness and national interest will foster stability, inclusivity, and sustainable growth across all tiers of government.

RECOMMENDATIONS

Based on the findings presented in the research, the following recommendations can be made:

Based on the findings and literature reviewed, the following recommendations are proposed to enhance fiscal federalism, equitable revenue allocation, and effective intergovernmental relations in Nigeria:

1. **Review and Reform the Revenue Allocation Formula:**
The federal government should undertake a comprehensive review of the current revenue allocation formula to ensure a fairer and more equitable distribution of resources among the federal, state, and local governments. This should be guided by principles of equity, population, fiscal capacity, and developmental needs rather than political considerations.
2. **Promote Fiscal Decentralization:**
Greater fiscal autonomy should be granted to state and local governments to enable them to generate and manage their own revenue sources. Decentralization will foster accountability, efficiency, and competition among subnational governments, thereby improving service delivery and development outcomes.
3. **Diversify the Revenue Base:**
Nigeria must reduce its overdependence on oil revenue by promoting non-oil sectors such as agriculture, manufacturing, and solid minerals. Expanding the tax base and

encouraging private sector participation in revenue generation will enhance fiscal stability and resilience.

4. **Strengthen Institutional Capacity and Accountability:**

Strengthening the institutional capacity of revenue-generating and fiscal management agencies at all levels of government is essential. Transparency and accountability mechanisms should be enforced to curb corruption and ensure efficient utilization of public funds.

5. **Enhance Intergovernmental Collaboration:**

Regular consultative forums and collaborative platforms should be established between the federal, state, and local governments to promote policy harmonization, coordination, and mutual understanding. This will minimize conflicts and foster cooperative federalism.

6. **Implement Effective Dispute Resolution Mechanisms:**

A well-defined constitutional framework for resolving fiscal and administrative disputes among different tiers of government should be developed. This will help reduce political tensions and promote smooth intergovernmental relations.

7. **Institutionalize Performance-Based Allocation:**

Revenue sharing should incorporate performance indicators linked to transparency,

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