

PHILOSOPHICAL REFLECTION ON THE PRINCIPLES AND CHALLENGES OF REVENUE ALLOCATION IN NIGERIA

ISIDENU, WENCESLAUS* & PROF. PAUL I. OGUGUA**

ABSTRACT

Revenue allocation in Nigeria is not merely a matter of economic calculation; it is deeply intertwined with questions of justice, equity, and political stability. The country's diverse ethnic and regional composition, coupled with its historical experiences of centralization and contestation over resources, renders the equitable distribution of revenue both complex and contentious. In Nigeria, the competing principles such as the principles of derivation, equality of states, population, and need, have shaped the evolution of revenue allocation formulas over time. This study adopts the method of philosophical analysis to examine these principles as well as the challenges of revenue allocation in Nigeria. The study's analyses emphasize that persistent tensions in Nigeria's fiscal federalism stem from unresolved contradictions between these principles and the political bargaining that underpin them. The study recommends striking a balance between rewarding resource-producing regions and ensuring that all parts of the federation have access to sufficient resources for development.

KEYWORDS: Revenue allocation, Nigeria

INTRODUCTION

Understanding federalism and fiscal federalism is foundational to any discussion of revenue allocation in Nigeria. This is because without a clear grasp of these concepts, it is impossible to evaluate the fairness, efficiency, and legitimacy of the country's revenue-sharing arrangements. Also, federalism provides the constitutional and political framework within which competing regional interests are balanced, while fiscal federalism specifies how financial resources are allocated to ensure both national cohesion and regional development.¹ In Nigeria, the interplay between federalism and fiscal federalism is particularly significant due to the country's ethnic, cultural, and economic diversity. Disputes over resource control, derivation principles, and equitable distribution have repeatedly threatened political stability and national integration². By examining the principles and practice of federalism alongside fiscal federalism, this study lays the groundwork for understanding the historical and structural context of revenue allocation. To begin with, federalism is a system of governance in which political authority is constitutionally divided between a central government and constituent units, such as states or regions, each of which possesses autonomous powers within defined spheres. As Watts observes "federalism is a method of dividing powers so that governmental functions are shared between central and regional institutions, yet each level retains a measure of autonomy and authority".³ In essence, federalism balances unity and diversity, enabling a country to accommodate regional differences while maintaining a cohesive national framework.

In Nigeria, federalism emerged as a response to the country's ethnic, cultural, and religious plurality, aiming to provide mechanisms for conflict management and power-sharing among diverse groups. The 1960 Independence Constitution and subsequent constitutions have sought to entrench federal principles that recognize the autonomy of states while maintaining a strong central government.⁴ However, the practical application of these principles has often been fraught with tension, particularly in the domain of revenue allocation, where disputes over resource control and distribution have frequently escalated into political crises.

Closely linked to federalism is the concept of fiscal federalism, which refers to the allocation of financial resources and taxing powers among the different levels of government. Oates again defines fiscal federalism as “the assignment of expenditure responsibilities and revenue-raising powers across the different tiers of government in a federal system, in order to promote efficiency, equity, and macroeconomic stability”⁵ In practice, fiscal federalism involves the vertical allocation of resources from the central government to subnational units and the horizontal distribution among regions or states to ensure balanced development. It is therefore both a technical and a normative framework, concerned not only with the mechanics of fund transfer but also with principles of fairness, equity, and justice.

Nigeria’s fiscal federalism is characterized by centralized control of major revenue sources, particularly petroleum revenues, which constitute the bulk of the country’s national income. States and local governments are largely dependent on federally collected revenue and statutory allocations, creating an asymmetrical power dynamic between the center and the periphery.⁶ This structure has generated persistent tensions, as regions with abundant natural resources often argue that they are inadequately compensated relative to their contribution to national revenue. Conversely, less-endowed states rely heavily on redistribution mechanisms to fund public services, highlighting the dual imperatives of efficiency and equity in fiscal federalism.⁷ Understanding Nigeria’s federalism and fiscal federalism is essential for analyzing revenue allocation, as the principles of power-sharing, resource control, and financial distribution are deeply intertwined.

Rationale for Revenue Allocation

The question of revenue allocation in a federal system is fundamentally tied to the structure and logic of federalism itself. Having established that federalism entails a constitutional division of powers and responsibilities among different tiers of government, it is now necessary to examine how financial resources are correspondingly distributed to sustain these responsibilities. Revenue allocation, therefore, is not merely a technical or administrative concern; it is a deeply political and philosophical issue that reflects the nature of state-society relations, equity, and justice within a federation.

At its core, revenue allocation seeks to ensure that each tier of government possesses adequate financial capacity to perform its constitutionally assigned functions. In federations such as Nigeria, where responsibilities are shared among the federal, state, and local governments, the absence of a coherent and equitable revenue-sharing formula can generate tensions, inefficiencies, and legitimacy crises. As such, revenue allocation becomes a mechanism for maintaining balance, promoting development, and preserving national unity.

Scholars of fiscal federalism emphasize that revenue allocation serves multiple purposes, including efficiency, equity, and macroeconomic stability. According to Robin Boadway and Anwar Shah, fiscal arrangements in federations must align revenue assignments with expenditure responsibilities in order to ensure efficiency and accountability.⁸ This implies that revenue distribution must correspond with functional responsibilities to avoid vertical fiscal imbalances—situations where subnational governments lack sufficient resources to meet their obligations. Beyond efficiency, equity remains a central rationale for revenue allocation. In heterogeneous societies like Nigeria, characterized by regional disparities in resource endowments and levels of development, revenue allocation serves as an instrument for redistribution and social justice. It aims to reduce inequalities among regions by transferring resources from wealthier areas to less developed ones. As Ahmad Ahmad Khan notes, intergovernmental transfers are essential for addressing horizontal imbalances and ensuring that all regions can provide comparable

levels of public services.⁹ This redistributive function is particularly significant in addressing historical imbalances and fostering inclusive national development.

However, the pursuit of equity often brings revenue allocation into tension with the principle of derivation, which holds that regions should retain a substantial portion of the resources generated within their territories. Proponents of derivation argue that it promotes accountability, encourages resource control, and compensates producing areas for environmental degradation and economic disruption. Critics, however, warn that excessive reliance on derivation can undermine national cohesion and widen regional disparities, particularly in resource-dependent federations.¹⁰

In the Nigerian context, these competing principles—derivation, equality of states, population, and need, have shaped the evolution of revenue allocation formulas over time. The challenge has been to strike a balance between rewarding resource-producing regions and ensuring that all parts of the federation have access to sufficient resources for development. Contemporary analyses emphasize that persistent tensions in Nigeria's fiscal federalism stem from unresolved contradictions between these principles and the political bargaining that underpins them.¹¹ This delicate balance reflects the broader philosophical tension between individual or regional entitlement and collective national interest.

Indeed, from a Rousseauian perspective, revenue allocation can be interpreted as part of the broader agreement through which citizens collectively determine the distribution of common resources for the general good. As Jean-Jacques Rousseau argues “that each of us puts his person and all his power in common under the supreme direction of the general will; and in a body we receive each member as an indivisible part of the whole”.¹² This formulation underscores the idea that public resources belong collectively to the people and must be distributed in a manner that reflects the general will rather than narrow sectional interests. In this sense, revenue allocation is not only a fiscal exercise but also a test of the legitimacy of the state.

Furthermore, revenue allocation plays a critical role in conflict management within federations. In resource-rich but politically contested regions such as the Niger Delta, disputes over revenue sharing have historically fueled agitation, resistance, and persistent demands for restructuring. More recent scholarship highlights how these tensions are tied to governance failures and distributive injustice. As Victor Ojatorotu argues: “the persistence of conflict in the Niger Delta is closely linked to the inequitable distribution of oil revenues and the exclusion of local communities from meaningful participation in resource governance”.¹³

Similarly, Eghosa E. Osaghae emphasizes the structural roots of these conflicts in this manner; “the crisis in the Niger Delta reflects deeper contradictions in Nigeria's federal system, particularly the disconnect between resource ownership, revenue allocation, and local development outcomes.”¹⁴ These perspectives reinforce the argument that inequitable revenue allocation can erode trust in the state, intensify grievances, and generate cycles of conflict. A fair and transparent revenue allocation system therefore serve as a critical mechanism for mitigating conflict, enhancing trust in government, and strengthening the social contract between the state and its citizens. On the whole, the rationale for revenue allocation in Nigeria extends beyond administrative convenience to encompass issues of efficiency, equity, political stability, and legitimacy. It remains a central pillar of fiscal federalism and a key determinant of how effectively the Nigerian state can fulfill its obligations to its citizens.

Revenue Allocation in Nigeria

Revenue allocation in Nigeria represents one of the most contested and politically sensitive aspects of its federal system. While, in theory, fiscal federalism prescribes a rational alignment between revenue generation and expenditure responsibilities, the Nigerian experience reveals a far more complex reality shaped by historical contingencies, colonial legacies, resource dependence, and elite bargaining.¹⁵ Rather than evolving purely as a technical mechanism for fiscal efficiency, revenue allocation in Nigeria has developed as an instrument of political negotiation and statecraft.

Historically, the foundations of revenue allocation in Nigeria can be traced to the colonial period, when fiscal arrangements were designed primarily to serve administrative convenience rather than principles of equity or autonomy. Early revenue commissions, such as the Phillipson Commission of 1946 and the Hicks-Phillipson Commission of 1951, introduced criteria like derivation and need, but these were applied inconsistently within a highly centralized colonial framework.¹⁶ Adebayo Adedeji notes that “the origins of fiscal federalism in Nigeria were less a product of deliberate economic design than of administrative expediency under colonial rule.”¹⁷ This historical foundation had enduring implications, particularly in shaping the persistent tension between centralization and regional autonomy.

In the immediate post-independence period, revenue allocation reflected a stronger commitment to the principle of derivation, especially in relation to agricultural exports such as cocoa, groundnuts, and palm oil. Regions retained a significant proportion of revenues generated from their resources, thereby encouraging regional competition and fiscal responsibility. However, this arrangement began to shift dramatically with the discovery and commercialization of petroleum in the Niger Delta. As oil revenues became the dominant source of national income, the federal government progressively centralized fiscal control, reducing the share of revenues returned to producing regions.¹⁸

This transition marked a critical turning point in Nigeria’s fiscal federalism. As Rotimi T. Suberu argues: “The ascendancy of revenues fundamentally altered Nigeria’s federal balance, enabling the federal government to consolidate fiscal power at the expense of subnational autonomy.”¹⁹ The centralization of oil revenues not only weakened the fiscal independence of states but also intensified struggles over access to federally distributed resources. Consequently, revenue allocation became less about economic efficiency and more about political access and distributive bargaining.

The institutionalization of revenue allocation in Nigeria has been mediated through a series of commissions and constitutional reforms, including the Raisman (1958), Binns (1964), Aboyade (1977), and Okigbo (1980) Commissions. Each of these bodies attempted to reconcile competing principles, derivation, population, equality of states, and need, yet none succeeded in producing a universally accepted formula. Scholars have argued that this persistent instability reflects the absence of a shared national consensus on the normative basis of fiscal distribution.²⁰

HISTORICAL EVOLUTION OF REVENUE ALLOCATION IN NIGERIA

The evolution of revenue sharing in Nigeria reflects a complex interaction between constitutional design, institutional reform, and political negotiation. Understanding this historical evolution is necessary to grasp why contemporary revenue allocation remains contested and politically sensitive. Rather than being a purely technical exercise, revenue allocation has always been shaped by broader state-building imperatives, resource politics, and regional dynamics.²¹

The Constitution and the Principles of Revenue Allocation

From the colonial period through the post-independence era, constitutions in Nigeria have played a central role in defining revenue allocation principles. Under British colonial rule, early fiscal arrangements were designed primarily for administrative convenience rather than equity or autonomy. The 1946 Phillipson Commission and the 1951 Hicks-Phillipson Commission introduced the principle of derivation, stipulating that regions should retain a portion of revenues generated within their territories.²² Yet, these principles were applied inconsistently within a highly centralized colonial administration. As Adebayo Adedeji notes that “the colonial constitutional framework laid the foundation for fiscal centralization while simultaneously creating expectations of regional entitlement, a contradiction that would persist into post-independence Nigeria”.²³

With independence in 1960, the First Republic Constitution formally recognized the derivation principle, granting resource-producing regions a substantial share of revenues from agricultural exports.²⁴ This constitutional arrangement reflected the broader political compromise necessary to balance regional autonomy with national cohesion. The subsequent 1963 Republican Constitution and the 1966–1979 military constitutions gradually centralized oil revenues, reflecting the federal government’s growing control over the nation’s primary source of income.²⁵ The 1979 Constitution and later the 1999 Constitution sought to reconcile competing principles: derivation, equality of states, population, and need. These frameworks codified the principles of fiscal federalism in a formal legal structure, but implementation often lagged due to political negotiation, administrative inefficiency, and institutional weakness. As Chibueze Uche observes: “while constitutional provisions laid out a seemingly rational formula for revenue allocation, the practical application often reflected the bargaining power of states and the federal center rather than abstract principles of fairness.”²⁶ Thus, constitutional evolution in Nigeria demonstrates the tension between normative principles of equity and the political realities of a resource-dependent federation.

Commissions of Inquiry and Revenue Allocation

In parallel with constitutional developments, Nigeria has relied extensively on commissions of inquiry to operationalize revenue allocation principles. These commissions aimed to reconcile the competing claims of derivation, equality of states, population, and need. Historically, the Phillipson (1946) and Hicks-Phillipson (1951) Commissions were colonial-era experiments that introduced the notion of derivation and regional allocation, but their recommendations were constrained by centralized colonial control.²⁷ Post-independence commissions were more explicitly political and development-oriented. The Raisman Commission (1958) established initial revenue-sharing formulas to support regional governments while addressing developmental disparities. The Binns Commission (1964) and Aboyade Commission (1977) further refined the formula, attempting to balance derivation with emerging federal priorities.²⁸ By the time of the Okigbo Commission (1980), the challenges of oil revenue centralization had intensified, and the commission sought mechanisms to compensate producing states while ensuring sufficient resources for non-producing states.²⁹

Analytically, these commissions illustrate the persistent tension between technical rationality and political expediency. Rotimi Suberu notes thus: “revenue commissions institutionalized principles such as derivation and need, but the ultimate formulas were often the product of negotiation and compromise

among elites rather than purely economic reasoning”.³⁰ This pattern highlights a structural characteristic of Nigeria’s fiscal federalism: institutional mechanisms exist to manage disputes, but political bargaining shapes outcomes, often producing formulas that are neither fully equitable nor entirely efficient. The historical sequence of commissions also demonstrates an incremental approach, where each successive commission attempted to address the shortcomings of the previous one, reflecting learning and adaptation in policy design.

The cumulative effect of constitutional evolution and commission-based adjustments is a system that, while formally codified, continues to provoke contention. Resource-producing regions argue for greater derivation-based allocations, citing environmental degradation and local development needs, while non-producing states invoke population and equality principles to justify redistribution.³¹ This dynamic explains why debates over revenue allocation remain central to Nigerian federal politics and why mechanisms for adjustment, such as commissions, continue to be politically salient.

Viewed collectively, the historical evolution of revenue allocation in Nigeria reveals three key insights:

1. Tension between Principles and Politics: Constitutional provisions and commission recommendations often reflect a compromise between normative principles (derivation, equity, need) and political bargaining.
2. Institutionalized but Flexible Framework: While commissions and constitutional formulas provide structure, they are repeatedly adjusted to respond to changing political and economic realities.
3. Legacy of Centralization and Dependence: The historical dominance of oil revenue has entrenched centralization, creating a persistent dependency syndrome in subnational governments.³²

These insights underscore that contemporary debates on revenue allocation are rooted not only in current political and economic conditions but also in a long-standing historical and institutional trajectory. Understanding this evolution is therefore essential for any analysis of Nigeria’s fiscal federalism and its implications for governance, equity, and national cohesion.

PRINCIPLES OF REVENUE ALLOCATIO IN NIGERIA

Revenue allocation in Nigeria is guided by a set of core principles enshrined in the constitution, codified through revenue commissions, and shaped by political negotiation. These principles, derivation, equality of states, population, and need, reflect attempts to balance regional entitlement, national cohesion, and socio-economic development. While theoretically coherent, their application has often been contested, revealing tensions between normative ideals and political realities.³³

The Principle of Derivation

The derivation principle stipulates that resource-producing states should retain a proportion of revenues generated within their territories. Historically, this principle was central to colonial fiscal arrangements and early post-independence constitutions, reflecting regional autonomy and the economic contribution of producing areas.³⁴ Analytically, derivation serves three key purposes: compensation, accountability, and development incentives. Producing regions argue that derivation rewards them for resource exploitation and offsets environmental degradation. Regarding this, Victor Ojaborotu observes that “the derivation

principle is not merely an economic tool; it is a mechanism for redressing local grievances, ensuring that oil-producing communities benefit directly from their resources.”³⁵

Despite its rationale, derivation has generated tension with the federal government and non-producing states, particularly during periods of high oil revenue. Excessive reliance on derivation can exacerbate inter-state inequalities, incentivize resource capture over sustainable development, and fuel sectional agitations, especially in the Niger Delta.³⁶ Recent reforms, including the 13% derivation rule, represent an attempt to balance producer compensation with national redistribution, yet debates persist over fairness and implementation.³⁷

Equality of States

The equality of states principle seeks to ensure that each federating unit receives a baseline allocation regardless of revenue-generation capacity. This principle addresses the inherent imbalance between resource-rich and resource-poor states, promoting horizontal equity and national integration.³⁸ Equality of states complements derivation by mitigating inter-state disparities. Scholars such as Rotimi Suberu argue that it functions as a stabilizing mechanism in heterogeneous federations “by guaranteeing a minimum share to all states, the equality principle prevents excessive centralization of resources in a few regions, fostering a sense of inclusion and national cohesion.”³⁹

However, strict equality can inadvertently reduce incentives for resource mobilization at the state level and can generate tensions when producing states perceive themselves as subsidizing non-producing regions. Balancing equality with derivation remains a persistent challenge in Nigeria’s fiscal federalism.⁴⁰

Population-Based Allocation

Population is another major factor in Nigeria’s revenue allocation formula. States with larger populations are allocated a proportionally greater share of national revenue to reflect the greater demand for public services.⁴¹ Population-based allocation aims to promote vertical equity, ensuring that resources follow the citizen rather than the territory. As Akin Oyedele notes, “allocating revenues according to population aligns fiscal resources with service delivery needs, allowing states with larger populations to meet the social and economic demands of their citizens”.⁴²

Despite its rationale, reliance on population data is often problematic due to disputed census figures, political manipulation, and undercounting, which have historically undermined the legitimacy of allocations.⁴³ Critics argue that without accurate demographic data, the population principle can inadvertently exacerbate inequalities instead of alleviating them.

The Principle of Need

The need principle is intended to address socio-economic disparities among states by allocating additional resources to states with weaker fiscal capacity or higher developmental deficits.⁴⁴ This principle aligns with the broader goals of redistribution, equity, and national development. The need principle ensures that resource-poor states can provide basic services, reducing regional disparities and fostering social stability. According to Ekpo Akpan H., “the need-based component of revenue allocation acts as a corrective mechanism, enabling states with limited internally generated revenue to fulfill constitutional obligations and participate in national development.”⁴⁵

Yet, need-based allocation is politically sensitive. Determining which states qualify and to what extent often involves subjective judgments, political negotiation, and elite bargaining, leaving the system vulnerable to perceptions of favoritism or neglect. Recent studies show that despite the formal adoption of the need principle, disparities in infrastructure, human development indices, and economic capacity persist among Nigerian states.⁴⁶

Taken together, these four principles illustrate the complex balancing act inherent in Nigerian revenue allocation:

1. Derivation emphasizes regional entitlement and compensation for resource exploitation.
2. Equality of states promotes horizontal equity and inclusion across the federation.
3. Population ensures vertical equity, aligning allocations with citizen demand.
4. Need addresses structural socio-economic disparities, fostering development.

The persistent challenge is that these principles often conflict in practice. For instance, high derivation for producing states may clash with equality or need-based allocations to less-developed regions. Population allocations may exacerbate tensions when census disputes arise, and the need principle can become politicized. Rotimi Suberu notes that “revenue allocation in Nigeria is not simply a technical exercise in fiscal management; it is a political negotiation embedded in the broader dynamics of federalism, equity, and national integration”.⁴⁷ In this sense, the principles of revenue allocation are not merely administrative tools but instruments of governance, conflict management, and social cohesion. Effective implementation requires transparent formulas, reliable data, and political will to balance competing interests, ensuring that the federation remains both stable and legitimate.

CHALLENGES OF REVENUE ALLOCATION IN NIGERIA

Despite the existence of constitutional principles and institutional mechanisms, revenue allocation in Nigeria continues to face significant challenges that undermine equity, efficiency, and legitimacy. These challenges arise from historical legacies, structural imbalances, institutional weaknesses, and political bargaining. Understanding these problems is essential for exploring normative frameworks, such as Nozick’s entitlement theory, which emphasizes the legitimacy of holdings based on justice in acquisition, transfer, and rectification.⁴⁸

Inequitable Distribution and Regional Disparities

One of the most persistent challenges is the perceived inequity in revenue distribution. Resource-producing states, particularly in the Niger Delta, have long argued that they are marginalized despite generating the majority of national revenue from oil.⁴⁹ Scholars have documented that while the derivation principle is meant to compensate producing regions, the practical allocation often falls short of addressing environmental degradation, poverty, and underdevelopment.⁵⁰ Cyril Obi captures this sense of disparity when he stated that “the Niger Delta, despite its oil wealth, continues to experience underdevelopment, high unemployment, and environmental degradation, fueling grievances and recurring demands for resource control”.⁵¹

Non-producing states, on the other hand, emphasize the principles of equality, population, and need, arguing that redistribution is necessary for national cohesion and equity. This dual tension produces a

situation in which no region feels fully satisfied, and revenue allocation becomes a political battleground rather than a purely fiscal exercise.⁵² This inequity illustrates a fundamental conflict between entitlement and redistribution: producing states claim a right to retain wealth derived from their resources, while the federal government and other states invoke collective welfare obligations. The tension provides a natural entry point for Nozick's theory of justice in holdings, which would require that allocations respect legitimate acquisitions and transfers while correcting for past injustices.⁵³

Centralization and Fiscal Dependence

Another major challenge is the centralization of revenue control at the federal level, particularly in relation to oil revenues. States are heavily dependent on federally allocated funds, with subnational governments generating only a small proportion of their own revenues.⁵⁴ This dependency undermines fiscal autonomy, accountability, and local governance capacity. According to Dele, Olowu, "the over-reliance of states on federally controlled resources creates a dependency syndrome, weakening incentives for states to mobilize internally and eroding local accountability".⁵⁵

The centralization problem is compounded by political manipulation of allocations, where revenue transfers are influenced by party alignment, political patronage, and elite bargaining. This situation not only undermines the technical fairness of revenue formulas but also erodes trust in state institutions, increasing the risk of conflict.⁵⁶ From a Nozickian perspective, centralization can be seen as violating principles of voluntary transfer and consent: resources that are legitimately acquired in one state are redistributed without explicit consent or just rectification, raising questions about the legitimacy of such transfers.⁵⁷

Data Challenges and Population Disputes

Population-based allocation presents a technical but highly politicized challenge. Nigeria has experienced repeated controversies over census figures, with allegations of overcounting, undercounting, and manipulation for political gain.⁵⁸ Inaccurate population data directly affect revenue allocations, resulting in perceptions of injustice and fueling inter-state tensions. As A. Adebayo argues, "Population remains the most contentious factor in revenue allocation due to its susceptibility to manipulation and its direct impact on fiscal entitlements."⁵⁹ This challenge demonstrates that even technically justified principles can fail when underlying data are unreliable. Nozick's framework would interpret this as a problem of legitimate acquisition: if allocations are based on faulty data, entitlements are distorted, and justice in transfer is compromised.⁶⁰

Political Manipulation and Elite Bargaining

Revenue allocation in Nigeria is frequently shaped by political negotiation and elite bargaining, rather than purely normative principles. Commissions and constitutional formulas are often overridden or adjusted based on political expediency, party loyalty, or regional power dynamics.⁶¹ This politicization undermines the predictability, transparency, and legitimacy of the allocation system. In Suberu, Rotimi's documentation, "revenue sharing decisions are rarely determined by formula alone; they reflect the bargaining power of states and the federal center, often at the expense of fairness and equity".⁶²

Such manipulation creates recurring cycles of discontent, agitation, and conflict, particularly in resource-rich regions. In a Nozickian analysis, these distortions violate the justice of transfer, as allocations are altered arbitrarily rather than reflecting legitimate claims or compensatory rectification.

Environmental Degradation and Resource Curse Dynamics

Resource-producing states face environmental and social costs that are insufficiently compensated by current revenue allocations. The Niger Delta is emblematic of the “resource curse,” where oil wealth generates ecological damage, social dislocation, and economic dependency, yet allocations fail to reflect these costs adequately.⁶³ Michael Watts underscores this in his submission that despite being the primary source of national wealth, oil-producing communities receive inadequate compensation for environmental damage, exacerbating grievances and conflict.⁶⁴ From an analytical standpoint, this represents a structural failure of the revenue allocation system: the system does not fully internalize social and environmental costs into fiscal transfers. Nozick’s entitlement theory would emphasize rectification, suggesting that states bearing the burden of extraction are entitled to holdings that compensate for damages and losses incurred.

The challenges outlined above can be summarized into four interrelated themes:

1. **Inequitable distribution and regional grievances:** tension between producing and non-producing states.
2. **Centralization and fiscal dependence:** undermining state autonomy and accountability.
3. **Technical and data challenges:** population disputes distort allocations.
4. **Political manipulation and social costs** – allocations influenced by elites rather than principled entitlement; environmental damages are undercompensated.

CONCLUSION

From an analytical standpoint, Nigeria’s revenue allocation system exhibits a structural contradiction between centralization and federalism. On one hand, the federal government controls the bulk of nationally generated revenue, particularly from oil, while on the other hand, states bear substantial responsibilities for service delivery. This imbalance has produced what Dele Olowu describes as, “a dependency syndrome in which subnational governments rely overwhelmingly on federally allocated revenues rather than internally generated resources.”⁶⁵ This dependency undermines fiscal accountability and weakens the incentive for states to develop sustainable economic bases.

Moreover, the dominance of oil revenue has entrenched a rentier political economy in Nigeria, where access to state-controlled resources becomes the primary basis of political competition. As Hazem Beblawi explains in his theory of the rentier state that “in rentier economies, the state is the principal recipient of external rents, and political power revolves around the distribution of these rents rather than productive economic activity”.⁶⁶ When applied to Nigeria, this framework helps explain why revenue allocation disputes are often intense and persistent: they are not merely disagreements over fiscal policy but struggles over access to the central source of national wealth. Recent scholarship further highlights the governance implications of Nigeria’s revenue allocation system. Analysts argue that the existing formula has not adequately addressed regional inequalities or promoted inclusive development.⁶⁷ Despite periodic adjustments, such as the introduction of the 13 percent derivation principle for oil-producing states, the system continues to generate dissatisfaction among both resource-rich and resource-poor regions. While

producing states demand greater control over their resources, non-producing states emphasize redistribution and national solidarity.

This persistent tension reveals a deeper normative dilemma: whether revenue allocation in Nigeria should prioritize efficiency, equity, or political stability. In practice, the system has attempted to balance these objectives, but often at the cost of coherence and effectiveness. As a result, revenue allocation remains a central fault line in Nigeria's federal system, reflecting broader challenges of governance, legitimacy, and national integration. In analytical terms, therefore, revenue allocation in Nigeria cannot be understood solely as a fiscal arrangement; it must be seen as a dynamic political process embedded within the country's historical evolution and socio-economic structure. Its outcomes are shaped not only by formal principles and institutional frameworks but also by power relations, resource endowments, and competing visions of justice within the federation.

Collectively, these challenges reveal that Nigeria's revenue allocation system, while formally guided by derivation, equality, population, and need, often fails to achieve normative justice, efficiency, or legitimacy. This analytical gap underscores the necessity of a normative framework to assess the fairness of revenue distribution and to guide corrective measures.

***ISIDENU, WENCESLAUS**

Department of Philosophy, Nnamdi Azikiwe University, Awka

Email: Obimaria2002@yahoo.com

****PROF. PAUL I. OGUGUA**

Department of Philosophy, Nnamdi Azikiwe University, Awka

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