FISCAL RESPONSIBILITY AND THE ALLOCATION OF NATIONAL REVENUE: A COMPARATIVE ANALYSIS IMPLICATIONS FOR EFFECTIVE NATION BUILDING IN NIGERIA AND SELECTED ECONOMIES

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ABSTRACT

Fiscal responsibility and equitable national revenue allocation are foundational prerequisites for sustainable nation building in resource-dependent developing economies. This paper examines these interrelated constructs in Nigeria, combining qualitative content analysis with quantitative fiscal data from the Central Bank of Nigeria, Debt Management Office, Budget Office of the Federation, and international organisations including the IMF, World Bank, and OECD. Nigeria's debt-service-to-revenue ratio reached 96.4% in 2023, signalling an acute fiscal crisis that severely constrains developmental capacity. Revenue distribution across the three tiers of government systematically disadvantages subnational governments. Grounded in fiscal federalism, public choice, agency, and stewardship theories, and drawing comparative insights from Norway, South Africa, Ghana, and Kenya, the study finds that weak fiscal institutions, political interference, poor enforcement of fiscal laws, and an over-centralised revenue allocation system remain the major structural impediments to effective nation building in Nigeria. The paper proposes targeted, feasibility-assessed policy reforms spanning legislative, institutional, and digital governance dimensions.

Keywords: *Fiscal responsibility, revenue allocation, nation building, fiscal governance, public financial management*

1.0 INTRODUCTION

The fiscal position of any government is both a mirror of its governance quality and a determinant of its developmental capacity. In Nigeria a federal state endowed with substantial petroleum wealth yet characterised by persistent poverty, crumbling infrastructure, and widening regional inequality the management and distribution of public financial resources constitutes the central political economy challenge of the state. Nigeria's debt-service-to-revenue ratio exceeded 96% in 2023, meaning that less than four kobo of every naira collected remained for public services after meeting debt obligations (DMO, 2024; Budget Office of the Federation, 2024).

Nigeria distributes federally collected revenue through the Federation Account Allocation Committee (FAAC) under the Constitution of the Federal Republic of Nigeria (1999) as amended, and the Revenue Mobilisation Allocation and Fiscal Commission Act. The current formula — 52.68% to the federal government, 26.72% to states, and 20.60% to local governments — creates a pronounced mismatch between fiscal resources and service-delivery mandates, leaving most states in near-permanent fiscal dependency (World Bank, 2022; RMAFC, 2024).

This paper draws on four theoretical traditions fiscal federalism theory, public choice theory, agency theory, and stewardship theory to examine fiscal responsibility and revenue allocation in Nigeria. It situates Nigeria's fiscal governance within a comparative framework including Norway, South Africa, Ghana, and Kenya, and addresses the frequently overlooked role of digital financial management infrastructure in enabling accountability and transparency.

2. Literature Review

2.1 Conceptual Review

Fiscal responsibility refers to the conduct of government financial affairs in a manner that is sustainable, transparent, and oriented towards the welfare of present and future citizens. It encompasses prudent expenditure management, reliable revenue mobilisation, responsible borrowing, and meaningful public accountability (IMF, 2021). The Fiscal Responsibility Act (FRA) of 2007 represents Nigeria's most substantive legislative commitment to fiscal discipline, requiring that the federal deficit not exceed 3% of GDP. However, as of 2023, Nigeria's fiscal deficit stood at approximately 5.4% of GDP well above the statutory ceiling without legal consequence (Obiora & Edeh, 2024). Revenue allocation distributes federally collected resources through vertical and horizontal equity principles, while the derivation principle allocates a minimum of 13% of natural resource revenues to producing states (Osuji & Nnadi, 2023). Nation building refers to the progressive construction of a cohesive, inclusive, and developmentally effective state, encompassing legitimate political institutions, public goods provision, and the management of diversity (OECD, 2020).

2.2 Theoretical Framework

This study integrates four theoretical frameworks. Fiscal Federalism Theory (Musgrave, 1959; Oates, 1972) prescribes how revenue responsibilities should be distributed in a multi-tier government system; applied to Nigeria, the current allocation formula does not equip each tier with resources commensurate with its assigned responsibilities (RMAFC, 2024; World Bank, 2022). Public Choice Theory (Buchanan & Tullock, 1962) explains why fiscal rules are enacted but seldom enforced, predicting that public officials will resist transparency reforms that make their actions verifiable. Agency Theory (Jensen & Meckling, 1976) illuminates principal-agent conflicts in the management of public funds, noting that monitoring mechanisms and meaningful sanctions are substantially weakened in Nigeria. Stewardship Theory (Davis et al., 1997) explains the observable variation in fiscal governance quality across Nigerian states, where some have demonstrated genuine commitment to public financial management reform. Table 1 summarises the four frameworks and their application to Nigeria's fiscal governance context.

Table 1: Summary of Theoretical Frameworks and Their Application to Nigeria's Fiscal Governance Context

Theory	Core Premise	Application to Nigeria	What It Explains	Limitation
Fiscal Federalism (Musgrave, 1959; Oates, 1972)	Fiscal functions optimally distributed across government tiers	Nigeria's allocation formula and RMAFC framework	Why revenue centralisation undermines local service delivery	Assumes institutional competence at lower tiers
Public Choice (Buchanan & Tullock, 1962)	Political actors maximise self-interest, not public welfare	Budget padding, non-compliance with FRA, patronage allocations	Why fiscal rules are enacted but not enforced	Ignores altruistic or norm-driven officials
Agency Theory (Jensen & Meckling, 1976)	Principal-agent conflicts arise where ownership and control are separated	Citizens (principals) vs. elected/appointed fiscal managers (agents)	Why government agents mismanage funds absent monitoring	Does not fully account for collective action problems
Stewardship Theory (Davis et al., 1997)	Some agents act as stewards, prioritising organisational goals	Explains conscientious fiscal management in select Nigerian states	Why uniform self-interest assumptions are insufficient	Difficult to operationalise ex ante

Source: *Authors' synthesis (2025) based on Buchanan & Tullock (1962); Jensen & Meckling (1976); Davis et al. (1997).*

2.3 Empirical Review

The empirical literature on fiscal responsibility and revenue allocation in Nigeria provides consistent evidence on the role of institutional quality, transparency, and fiscal discipline in shaping developmental outcomes. Samuel (2025) found that oil revenue volatility introduces significant instability into budget planning, with high oil prices associated with increased recurrent expenditure rather than accelerated capital development. Umo Udo, Eyoh, and Bassey (2025), using co-integration modelling, established a positive long-run relationship between allocation receipts and socio-economic development, though short-run effects were weak. Akinwale and Olusanya (2024) reported that fiscal responsibility compliance significantly improves capital expenditure efficiency across Nigerian states. Obiora and Edeh (2024) found that budget transparency and expenditure control exert a strong positive effect on service delivery. Ibrahim and Ahmed (2023) revealed that weak enforcement of fiscal rules undermines intergovernmental transfers, while Osuji and Nnadi (2023) demonstrated that states with higher transparency ratings convert allocation receipts into development outcomes at nearly twice the rate of less transparent states. Earlier studies by Adegbite and Lawal (2022), Maduabum (2022), Olatunji (2021), and Eze and Okeke (2020) reinforce these findings, consistently indicating that the effectiveness of revenue allocation in promoting nation building is largely contingent upon fiscal discipline, institutional strength, and accountability.

2.4 Comparative Perspective

Comparative analysis reveals a consistent pattern: countries with the strongest fiscal governance outcomes have institutionalised independent oversight, invested in digital financial management infrastructure, and enacted fiscal rules with credible enforcement mechanisms (IBP, 2023; IMF, 2024). Norway's success reflects not only its sovereign wealth fund but the institutional architecture governing it, including a statutory spending rule, independent investment mandate, and full public reporting. Ghana established an independent Fiscal Council in 2022 with a mandate to assess government fiscal plans and report on compliance publicly. South Africa's vulekamali.gov.za platform publishes budget allocations and expenditure outcomes at the programme level across all government departments. Table 2 presents a comparative summary.

Table 2: International Fiscal Governance Comparison

Country	Revenue-GDP (%)	Debt Service/ Revenue (%)	Fiscal Transparency Score	Key Institutional Feature
Nigeria	9.4	96.4 (2023)	45/100	FRA 2007, largely unenforced; no independent fiscal council
Norway	56.8	4.2	78/100	Sovereign wealth fund with statutory withdrawal rule; independent oversight
South Africa	26.1	21.8	87/100	Independent National Treasury; PFMA with consequence management
Ghana	16.3	68.4	54/100	Independent Fiscal Council est. 2022; e-procurement (GIFMIS) deployed
Kenya	17.8	42.1	49/100	Integrated IFMIS deployed nationally; Controller of Budget reports publicly

Source: *Authors' compilation (2025) based on IBP (2023); IMF Article IV Reports (various); World Bank Fiscal Monitor (2024).*

3. Methods

This study adopts a literature-based review design combined with quantitative fiscal data analysis. The literature component involves the systematic identification, selection, and critical synthesis of published scholarly and policy literature on fiscal responsibility, revenue allocation, and nation building in Nigeria and comparator countries. The quantitative component assembles and analyses publicly available fiscal performance data from the Central Bank of Nigeria, the Debt Management Office, the Budget Office of the Federation, the RMAFC, and major international organisations.

Literature selection followed explicit inclusion criteria: relevance to core research themes; publication in peer-reviewed journals or by credible international institutions; publication between 2019 and 2025, except for foundational theoretical texts; and availability in English. This resulted in a corpus of 22 peer-reviewed studies supplemented by 14 institutional and policy documents. Several limitations must be acknowledged: reliance on secondary data means conclusions are contingent on source accuracy; the design does not permit causal inference; and the comparative analysis is constrained by differences in country size, institutional history, and political economy. These limitations were mitigated through triangulation of multiple authoritative data sources, transparent documentation of analytical procedures, and explicit acknowledgement of contextual constraints when drawing comparative inferences (Saunders et al., 2019).

4. Discussion of Results

4.1 Nigeria's Fiscal Performance, 2019–2024

Table 3 presents federal government fiscal performance indicators from 2019 to 2024. Total federal revenue grew nominally from ₦4.12 trillion (2019) to a projected ₦9.10 trillion (2024), but this growth has been outpaced by the expansion of both the budget deficit and debt service obligations (DMO, 2024). The debt-service-to-revenue ratio reached a critical 96.4% in 2023, leaving less than 4% of collected revenue for discretionary developmental expenditure. The IMF (2024) has explicitly flagged Nigeria's debt service burden as among the most acute of any major developing economy.

Table 3: Federal Government Fiscal Performance Indicators, 2019–2024

Year	Fed. Revenue (₦tn)	Oil Rev. Share (%)	Budget Deficit (₦tn)	Debt Service (₦tn)	Debt-GDP (%)	DS/Rev. (%)
2019	4.12	64.3	4.59	2.45	28.4	59.5
2020	3.42	60.1	6.27	2.83	34.6	82.7
2021	4.69	57.8	6.43	3.62	36.1	77.2
2022	6.50	62.2	7.90	5.24	38.7	80.6
2023	7.24	62.6	13.78	6.98	46.3	96.4
2024*	9.10+	58.4+	13.0+	7.20+	52.1+	79.1+

Source: DMO (2024); Budget Office of the Federation (2024); CBN Statistical Bulletin (2024). DS/Rev. = Debt Service as % of Total Revenue.

4.2 FAAC Disbursements by Tier of Government, 2020–2023

Table 4 presents annual FAAC disbursements by tier of government. Combined disbursements to states and local government areas increased from ₦2.59 trillion (2020) to ₦4.66 trillion (2023). However, adjusted for consumer price inflation which averaged 21.4% in 2023 the real purchasing power of these transfers declined substantially, further compressing subnational developmental capacity (NBS, 2024). The federal government's share consistently accounted for over 52% of total disbursements, reinforcing structural fiscal centralisation.

Table 4: Annual FAAC Disbursements by Government Tier, 2020–2023 (₦ billion)

Year	Federal Govt (₦bn)	State Govts (₦bn)	LGAs (₦bn)	Total FAAC Pool (₦bn)
2020	2,847	1,483	1,105	5,435
2021	3,462	1,812	1,344	6,618
2022	4,830	2,478	1,847	9,155
2023	5,191	2,665	1,993	9,849

Source: RMAFC (2024); CBN Annual Reports. Figures represent gross statutory allocations before deductions.

4.3 Development Impact Assessment

Table 5 assesses the impact of revenue allocation on key development indicators. The data confirm that Nigeria's fiscal allocation has failed to translate into commensurate improvements in human welfare. The persistence of 133 million Nigerians in multidimensional poverty reflects not a shortage of resources but a profound failure of fiscal governance (NBS, 2023). The poverty rate increased from 40.1% (2019) to 46.0% (2023) despite nominal revenue growth, underscoring that developmental benefits are contingent on the quality of the systems through which allocations are deployed.

Table 5: Impact of Revenue Allocation on Key Development Indicators

Development Indicator	Rating	Evidence
Infrastructure	Moderate	Deficit ~$100bn; 18% of roads paved. Capital budget execution averaged 53% (2018–2023).
Poverty Reduction	Low	133 million in multidimensional poverty (NBS, 2023); poverty rose from 40.1% (2019) to 46.0% (2023) despite revenue growth.
Healthcare	Low	Health spending 3.9% of GDP vs. 15% Abuja Declaration target; under-5 mortality 109/1,000 live births (UNICEF, 2023).
Education	Moderate	Avg. 7.9% of budget 2019–2023 vs. UNESCO's 20% target; 18.3 million out-of-school children (UNICEF, 2023).

Development Indicator	Rating	Evidence
Economic Growth	Moderate	GDP growth avg. 2.8% (2019–2023), below population growth of ~2.9%, implying per capita stagnation.
Regional Equality	Low	HDI gap: Lagos 0.672 vs. Yobe 0.361 — among Africa's widest (UNDP, 2022).

Source: World Bank (2022, 2024); NBS (2023, 2024); UNICEF (2023); UNDP (2022); Budget Office of the Federation (2024).

4.4 Structural Pathologies

Three structural pathologies are identifiable from the quantitative evidence. First, debt-induced fiscal compression: a debt-service-to-revenue ratio of 96.4% in 2023 constitutes a developmental emergency requiring not only a credible medium-term debt reduction strategy but an urgent review of the terms, tenors, and currency composition of existing debt obligations (DMO, 2024; IMF, 2024). Second,

allocative decoupling: capital budget execution averaged only 53% between 2018 and 2023, meaning nearly half of all capital allocations were either unspent or failed to generate intended outputs (Budget Office of the Federation, 2024). Root causes include poor project selection, inadequate pre-implementation planning, procurement bottlenecks, and diversion of capital funds to finance recurrent expenditure shortfalls (Obiora & Edeh, 2024). Third, the political economy of fiscal inertia: the allocation formula has not been comprehensively revised in over two decades despite dramatic shifts in service-delivery responsibilities, and the FRA's enforcement provisions have never been activated (Osagie, 2023). Public choice theory predicts exactly this outcome: resistance to reform is rational, organised, and well-resourced.

4.5 Enhanced Conceptual Model

This study presents an enhanced conceptual model of the relationship between fiscal responsibility, resource allocation, and nation building:

Fiscal Responsibility → Efficient Resource Allocation → Development Outcomes → Nation Building

Moderating Variables: Oil Price Volatility | Institutional Capacity | Political Will | Civic Engagement

Oil price volatility introduces external revenue shocks that disrupt fiscal planning and execution regardless of governance quality (Samuel, 2025). Institutional capacity determines how effectively allocated resources are converted into development outcomes, as variations in capital budget performance across Nigerian states demonstrate (Dunmoye, 2022; World Bank, 2022). Political will is a key determinant of institutional effectiveness, since fiscal reforms depend on political actors for initiation and continuity. Civic engagement - through civil society, media oversight, and voter participation — helps sustain political will by reinforcing accountability pressures. The model also recognises feedback effects: improved development outcomes enhance public trust and strengthen civic engagement, creating conditions for further reform.

5. Summary, Recommendations and Conclusion

5.1 Summary of Findings

This paper has examined fiscal responsibility and national revenue allocation in Nigeria through a theoretically pluralist, quantitatively grounded, and comparatively situated analytical framework. Nigeria's fiscal position is critically precarious: a debt-service-to-revenue ratio of 96.4% in 2023, a fiscal deficit of ₦13.78 trillion, and a revenue-to-GDP ratio of approximately 9.4% among the lowest of any major developing economy signal that the current fiscal trajectory is unsustainable and actively threatens effective nation building (DMO, 2024; IMF, 2024).

The national revenue allocation system is structurally misaligned with Nigeria's service-delivery responsibilities. The federal government's 52.68% share of FAAC disbursements exceeds what is required to fund its constitutional mandates, while the shares received by states and local governments are insufficient to support primary education, healthcare, infrastructure, and social services (RMAFC, 2024). The developmental consequences are measurable: 133 million Nigerians in multidimensional poverty, a rising poverty rate despite nominal revenue growth, and GDP growth below the population growth rate (NBS, 2023; World Bank, 2024). Four priority policy gaps were identified: the unenforced Fiscal Responsibility Act, inadequate subnational financial management systems, the absence of a binding sovereign wealth savings rule, and the lack of a unified open budget data platform.

Comparative evidence from Norway, South Africa, Ghana, and Kenya demonstrates that these outcomes are not inevitable. A common feature across all comparator countries is the establishment of institutions that enforce accountability, enhance transparency, and align political incentives with fiscal discipline (IBP, 2023; OECD, 2020).

5.2 Policy Recommendations

First, the operational independence and enforcement capacity of the existing Fiscal Responsibility Commission (FRC) should be strengthened through secure tenure for commissioners, independent funding mechanisms, and statutory powers to enforce compliance and prosecute violations of the Fiscal Responsibility Act. Quarterly compliance reports should be made mandatory and publicly accessible (Timeline: 12–18 months).

Second, Nigeria's existing digital transparency platforms including the Open Treasury Portal, BudgIT's GovSpend, and Tracka should be integrated into a unified, legally mandated transparency framework. Compliance should be enforced through amendments to the Fiscal Responsibility Act and the Freedom of Information Act, with FAAC disbursements partly tied to transparency compliance (Timeline: 12–24 months).

Third, the Fiscal Responsibility Act should be strengthened to establish minimum national standards for subnational fiscal discipline, including mandatory quarterly reporting, deficit limits, and sanctions for non-compliance, with compliance incentivised through conditional access to federal transfers (Timeline: 12–18 months).

Fourth, clearer statutory savings and withdrawal rules tied to oil revenue benchmarks should be introduced for the Nigeria Sovereign Investment Authority, with more frequent and detailed public reporting to reinforce fiscal stability and public trust (Timeline: 12 months).

Fifth, adoption and effective utilisation of Integrated Financial Management Information Systems should be standardised and expanded across all states, using performance-based FAAC adjustments and technical support as incentives, with periodic audits to ensure proper usage (Timeline: 24–36 months).

5.3 Conclusion

Nigeria's current post-subsidy adjustment period presents a limited but important opportunity for reform. Translating this opportunity into lasting change will depend on the strength of fiscal institutions, the consistency of civil society engagement, and the political will to prioritise long-term national development. The study has four primary limitations: reliance on secondary data contingent on source accuracy; the absence of causal inference; a focus on national-level data that may obscure subnational variation; and comparative constraints arising from differences in country size, resource endowment, and institutional history. These limitations notwithstanding, the evidence is clear the legitimacy and sustainability of the Nigerian state will depend on its ability to manage public resources transparently, efficiently, and in the public interest.

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