INTERDISCIPLINARY JOURNAL OF AFRICAN & ASIAN STUDIES (IJAAS) VOL.12 NO.2, 2026
ISSN:2504-8694; E-ISSN:2635-3709, (Email:ijaasng@gmail.com) Nnamdi Azikiwe University, Awka, Nigeria

OIL DEPENDENCY, FISCAL FEDERALISM, AND REGIONAL INEQUALITY IN NIGERIA, 1970–2020.

Okechukwu Felix NWACHUKWU
Department of History and International Relations, Abia State University, Uturu. E-mail: okeyfn440@gmail.com

ABSTRACT

This paper analyses the interplay among oil dependence, fiscal federalism, and regional inequality in Nigeria between 1970 and 2020. Its primary objective is to examine how the country's dependence on petroleum revenues has shaped its fiscal structure, influenced regional development, and contributed to socio-economic inequalities. The study adopts a qualitative analytical approach, employing content analysis of relevant documentary sources. A thematic approach is used to analyse the data. The findings reveal that although petroleum has remained Nigeria's principal source of national revenue and foreign exchange earnings, the centralisation of fiscal authority in the federal government has constrained the fiscal autonomy of sub-national governments and exacerbated regional inequalities, particularly in the Niger Delta. Despite substantial revenue inflows through the derivation principle and federal allocations, many oil-producing communities continue to experience underdevelopment, poor infrastructure, low human development indicators, environmental degradation, and widespread poverty. The study concludes that achieving sustainable and equitable development in Nigeria requires the diversification of the national economy, greater fiscal decentralisation, a more equitable revenue-sharing framework, enhanced transparency and accountability in resource governance, and meaningful participation of host communities in the management of petroleum resources.

Introduction

Ever since the commercial discovery of crude oil in Oloibiri in 1956, petroleum has come to be the fulcrum of Nigerian politics-economy, which essentially has transformed its fiscal architecture and growth paths. By 1970s, oil revenues had been the main source of foreign exchange earnings, government income and even export proceeds and placed Nigeria as a classic petro state. The facts of the situation reveal that the oil during the oil boom period contributed over 90 per cent of foreign exchange earnings and over 80 per cent of government revenue and thus entrenched the resource dependence as the fundamental basis of fiscal planning and government expenditure regime.[1] Although the sector accounts for just about 8-10 per cent of Gross Domestic Product (GDP) in recent decades,[2] the sensitive nature of this sector in mobilising revenues and foreign exchange earnings has maintained a trend of economic susceptibility to oil price shocks and fiscal shocks around the world. This continued dependency has limited economic diversification, and the Nigerian economy has been subjected to interim downturns with the decline in price of oil, including the global demand contractions in 2020 that added to negative GDP growth of -1.8 per cent[3] and increased fiscal pressures both of the federal and sub national governments.

This oil dependency has been inseparably associated with the design of fiscal federalism in Nigeria which influences the intergovernmental relations and equity outcome of the regions throughout the federation. On the basis of the revenue allocation model in the 1999 Constitution, a derivation principle of 13 per cent was provided to give funds to states that produce natural resources, but this has created controversial arguments about equitability, financial independence and effects of development. Recent reports indicate that oil producing states have about N620.23 billion derivation allocations in the first five months of 2025 alone with Delta, Bayelsa and Akwa Ibom states getting the highest derivation allocations, which indicates the continued relevance of petroleum rents to the economies.[4] However, researchers believe the pooling and distribution of revenues in centralised form give the federal government an upper hand in oil wealth and reduce the productive abilities of the units that make up a federation thus institutionalising structural imbalances in the federal structure. In addition, oil revenues continue to constitute more than 44 per cent of financial transfers to many sub-national governments, making them monetarily fragile and reliant on the fluctuating oil rents.[5]

These intersecting forces of oil dependence and fiscal federalism have generated some strongly regional inequalities in socio economic results throughout Nigeria and its different geopolitical areas. Although oil wealth has placed into the hands of some oil producing states, huge fiscal inflows, the wider divesture of the public resource has in many cases, not resulted in equivalent development benefits to most of the Nigerians. The focus of revenue sharing has been on redistribution rather than economic production locally, leading to the existence of chronic poverty, poor investment in infrastructure and inequality in the human development indicators in different regions.[6] The trend can be explained by a deeper structural issue of federalism in Nigeria, in which the abundance of resources has not always triggered equitable development but has instead continued to breed rentier politics and fiscal imbalances.

Conceptual and theoretical framework

The study of oil dependency, fiscal federalism, and regional inequality in Nigeria can be better placed on the Resource Curse Theory although a supporting explanation tool like the Dependency Theory provides the analysis with a solid theoretical basis. The Resource Curse Theory, first articulated by scholars such as Richard Auty and further developed by Jeffrey Sachs and Andrew Warner, posits that countries endowed with abundant natural resources often experience paradoxically poor economic performance, weak institutions, and heightened inequality.[7] The theory states that over-dependence on natural resource rents, especially oil, stimulates rent-seeking behaviour, corruption, and fiscal indiscipline at the expense of productive sectors like agriculture and manufacturing (Stiglitz, 2006). This theory best describes the process in the Nigerian situation, whereby, oil revenues were centralised and redistributed via the federal systems, which undermined the notion of fiscal accountability at the subnational units and consolidated a "sharing" rather than "production" political economy. The strength of this theory is that it can be used to explain the relationship between oil wealth and the failure of governance; but its weakness is that it is more inclined to generalize the results, which underestimates the importance of institutional quality and policy decisions in moderating the results of resources.

Complementary to this is the Dependency Theory of underdevelopment, which is related to the works of Raul Prebisch, Andre Gunder Frank, and Samir Amin, which describe underdevelopment as a structural result of uneven integration into the global capitalist system.[8] Regarding oil dependency, the adaptation to the global oil market has strengthen the mono-product export dependence and the discouragement of diversification, which also influences domestic fiscal frameworks that favor externally obtained rents and discourage revenue gains, as well as affect domestic fiscal structures. The key feature of Dependency Theory is that it places the oil economy of Nigeria in a larger system of global inequality, but its limitation is that it is prone to economic determinism and gives little consideration to agency in the country and institutional reform. However, when it is joined with the Resource Curse framework, it gives a better comprehension of the both internal governance failures and external structural constraints.

When applied to the current research, a combination of the two theories provides a powerful analytical perspective through which the development of oil dependency, the distortions in fiscal federalism, and the persistence of regional inequality in Nigeria between 1970 and 2020 can be examined. The Resource Curse Theory describes the role of the oil revenues in promoting the centralised fiscal control, undermining the accountability, and supporting the distributive politics, which in turn contributed to the aggravation of the inter-regional disparities and agitations for resource control. At the same time, the Dependency Theory sheds light on how Nigeria's continued reliance on crude oil exports within the global economy has entrenched structural imbalances and limited the prospects for equitable development. Together, these frameworks highlight that Nigeria's regional inequalities are not merely accidental but are deeply rooted in both the domestic political economy of oil and the country's position within the international economic system. Therefore, these theories provide a coherent basis for examining the link between oil dependency, fiscal arrangements, and uneven development in Nigeria.

The emergence of oil dependency in Nigeria, 1970–1985

An accelerated growth of oil industry, especially since the beginning of the 1970s, had decisive influence on the transformation of the economy of Nigeria in the early post colonial period. Though oil had been discovered commercially in Oloibiri in 1956, it did not take over an economic centre stage till the oil price shocks of 1973-1974 when the world demand and export income soared. Nigeria experienced a high growth rate in foreign exchange earnings on its crude oil exports during this time, with the oil rents in 1972 rising over eight times in the period between 1972 and 1974, and in 1973 the oil rents comprised roughly 45 per cent of the real GDP, this was a strong indicator of the increasing centrality of the sector in Nigeria in regard to national income. These were reflected by drastic rises in export earnings that grew to be N612 million in 1972 to N5.057 billion in 1974 as an indication of the fast-tracked process of oil becoming the heart of the fiscal economy in Nigeria.[9]

By the middle of 1970s, the role of petroleum in the Nigerian economy was absolute. For instance, oil revenues accounted for 93 per cent of exports in 1977 and an average of 76 per cent of government revenues between 1975 and 1980.[10] The impact of the oil exports on the structure of government finances was such that the proportion of oil revenues to total government revenues suppressed non-oil sectors. The statist growth which came hand in hand with oil wealth further increased the reliance of Nigeria on unstable oil rents as other economic sectors of the economy became weak in comparative terms.

This dependence upon oil income became even more institutionalized in the volatile early 1980s, when the oil glut of 1982-1985 reduced prices and revealed the vulnerability of the oil centred fiscal model in Nigeria. Despite the fact that the level of oil export by Nigeria remained large, averaging about 2.2 million barrels per day in 1980, the attendant declining prices in the world market weakened revenue inflows. However, oil proceeds continue to represent a considerable share of total government revenues in 1980 (about 81.1 per cent and as high as 72.5 per cent in 1985). This persistent reliance on petroleum rents make fiscal policy extremely vulnerable to external market fluctuations.[11]

The domination of oil as the backbone of the Nigerian economy in 1970-1985 had a significant impact on the developmental prospects and economic diversification in Nigeria. Although the oil boom was accompanied by fiscal windfalls never seen before, it also created the classical dependency syndrome of oil boom that includes neglecting agricultural and industrial sectors, the lack of diversification of exports and the increasing reliance on oil prices at the cost of non oil productive means that would persist in the decades to come as the Nigerian government slipped into its current challenges of fiscal federalism and regional inequality.[12]

Fiscal federalism and revenue allocation mechanisms

The history of the fiscal federalism in Nigeria has been characterized by the long standing battle on the distribution of revenue particularly the oil revenue between the three levels of the government in terms of collection, pooling and sharing. The concept of fiscal federalism in Nigeria is formally based on the assumption that the federal, state and local governments are entitled to financial self-sufficiency and they should have the amount of expenditure obligations that is commensurate with their constitutional roles. Nevertheless, with the emergence of oil as the main source of national income in the mid 70s, the federal government has taken the centre stage of fiscal resources, and centralising the collection and allocation of fiscal resources via the Federation Account. Section 162 of the 1999 Constitution[13] mandates that all revenues to the Federal Government must be paid into this common pool and apportioned in a statutory formula that has remained a source of controversy and debate in the field of academia and policy making.

A primary area of contention in the system of revenue distribution in Nigeria is the concept of the derivation principle that requires a percentage of the revenue generated by natural resources to be flowing back to the states where the resources are produced. The weight of derivation has historically varied widely; at independence, up to 50 per cent of revenue was attributable to resource producing regions on the grounds of derivation but this was gradually dwindled by a series of military decrees in the 1970s and 1980s to reach the point of political centralisation and loss of regional fiscal sovereignty. As of today, the Constitution ensures at least 13 per cent of revenue accruing from natural resources to be paid to the producing states.[14]

In addition, Nigeria's revenue allocation systems integrate other factors, like the population size, equality of states, internal revenue generation capacity as well as the land mass/terrain and social development factors, to allocate the rest of the pooled funds horizontally to all states. These principles are a reflection of a mixed effort to compromise equity and efficiency in fiscal transfers, but they frequently have an effect of trying to obscure existing inequalities. According to the latest approved revenue formula, the Federation Account is vertically shared among the Federal Government, State Governments and Local Governments with relatively 52.68 per cent, 26.72 per cent and 20.60 per cent respectively, and the remainder are then apportioned horizontally based on the criteria in the horizontal allocation.[15] The pre-emption of the federal share and allocation design limits fiscal capacities of sub national governments and makes sub national governments depend on the federally pooled revenues, which invalidate the principle of fiscal autonomy that is characterized by strong federalism.

The financial distribution model has far reaching political stability, regional growth and intergovernmental relations in Nigeria. Conflict over the fairness and sufficiency of the formula used to distribute the resources has led to the demand to exert greater control over resources and decentralize fiscal policies, especially on the oil producing states who complain that they incur disproportionate environmental and economic costs as compared to the revenues they get. These tensions have occasionally been expressed in political agitations and constitutional reform agitations, and underlying fears of equity, representation and national wealth distribution. As a result, the revenue allocation mechanisms design and implementation will continue to be in the focus of the attempts to strengthen fiscal federalism, stimulate the socio economic progress and reduce disparities among regions under the federal system in Nigeria.

Oil dependency and the deepening of regional inequality

The oil dependency paradox in Nigeria is highly pathologized in the contrast between the national prosperity and underdevelopment of the region. Even though petroleum earns the Nigerian government over 80 per cent of its foreign exchange income, over 95 per cent of its revenue, and it also produces more than 85 per cent of the GDP, the major oil producing region, the Niger Delta, is one of the poorest and least developed regions in the country. This trend conforms to what other researchers describe as a resource curse where the rich natural resources are failing to translate into general-based human development but instead to institutionalise systemic inequality and economic marginalisation. The quantitative studies have indicated that notwithstanding the level of contribution to the national economy, major human development and poverty indicators in oil producing states are not doing so well; as an example, the levels of poverty in most communities that host oil production are persistently high compared to the rest of the country.

The existence of socio economic inequalities between the oil producing and non oil producing areas is further augmented by the fact that infrastructure, employment opportunities and government services can be accessed unequally. Although the Federal Government distributes revenues and interferes with few development programmes like the Niger Delta Development Commission (NDDC) formed during 2000 in order to counter the marginalisation problem in the region, there has been a slow pace of progress. Policy discussions indicate that, despite the massive federal expenditures in the Niger Delta, limited signs of explosive poverty decline, basic infrastructure development, or commercial and industrial growth relative to other areas have been evident.[16] On the other hand, when other economic sectors particularly the services and manufacturing sectors are subject to diversification, it is possible to note that other regions have recorded better results in terms of regional income and human development results than the oil reliant areas.

Regional inequality has also been intensified by the environmental degradation that comes along with oil extraction that undermines the traditional livelihoods and places excessive weight on the host communities. Studies of rural oil producing communities show that the oil spills and gas flaring has caused extensive and long-lasting environmental damage, soil pollution, and loss of fisheries and arable land, directly affecting social services and livelihoods.[17] The frequent oil spills, and gas flaring have caused extensive destruction of the environment, contamination of soil, and loss of fisheries and arable lands, a direct cause of low social services and livelihoods.

Such inequality trends have provided the fuel on political tensions, resource control agitations and violent struggle, which have further agitated the prospects of the area development. A major complaint of both non-violent activism and violent insurgency has been the lack of connection between the familiarity of creating wealth in the region and the realities in which the people live.[18] Policy wise, the lack of correlation between the creation of wealth within the region and the real existence of the people has been a source of structural deficiency in how Nigeria governs its oil resources and redistribution of the revenues. The solution to these imbalances includes not only the need to have better revenue distributions systems and investment in the local infrastructure but also meaningful involvement of host communities in the decision making process of development and open management of oil revenues so that the economic gains can be shared more equally across the diverse regions of Nigeria.

Political economy of resource control and regional agitations

Nigeria is highly exercised in terms of the political economy of the resource control and regional agitations, which lie in the structural imbalances of the fiscal federalism of the country and the historical regulation of petroleum wealth. Since oil became the main export and source of revenue in Nigeria especially since the late 1960s, the communities in the Niger Delta region have occasionally complained that they are being systemically marginalised: that oil rents collected in their land and waters have not spilled over into local development. Originally expressed in the political and civil society's arenas, these frustrations became more structured in the 1990s and early 2000s to form more organised demands of having more control over their natural resources and having a higher amount of the economic gains flowing as a result of the same resources. According to Evi Frank Owisi and F.A. Ikenga, these conflicts are not only criminal in essence, but mirror the larger resentments in terms of unjust revenue sharing, environmental destruction, and inability of the federal system to generate real socio economic dividends to the host communities.[19]

The agitation to control resources has often focused on the contention in the formula of revenue derivation and the purported federal control of the oil wealth management. Even though the 1999 Constitution of Nigeria provides at least 13 per cent derivation to the oil producing states, this legal bill of rights has proved inadequate in solving the long held disparities. The derivation share is an insufficient payment of the environmental cost of oil producing regions or underdevelopment benefits, and hence grievances of relative deprivation persist among the citizens of the Niger Delta. These feelings of injustice have been associated with waves of agitations, which are organized peacefully and violently, with the local groups demanding to renegotiate the fiscal terms of federalism, as well as the distribution of resources.

Political responses to these agitations have varied over years, yet in most cases they have been typified by a mixture of negotiation, policy reform and at times militarised repression. The amnesty programme introduced in 2009, was a historic move by the federal government to put down a rampant militancy by providing incentives of reintegration by the former fighters especially the Movement for the Emancipation of the Niger Delta (MEND). Although the programme did decrease the violent insurgency and oil sabotage, it failed to eradicate the deep-rooted political and economic dissatisfactions, such as the need to have more control over the management of resources and the long-term investment in the local development. In fact, though amnesty brought down the conflict in the short term, it did not eliminate the underlying structural factors (e.g. centralised control of petroleum resources and insufficient local fiscal autonomy) that had initially given rise to agitations.

The continuing dynamics of regional agitations divulge the fragility of Nigeria's federal compromise in the face of unequal development and contested resource governance. Outside the Niger Delta, the struggles over the control of resources also have affected the demands over greater constitutional restructuring, demands on what proponents suggest as true federalism, a system in which federating entities have more control over locally generated resources and revenues. Opponents of the current system claim that excessive centralisation of fiscal power in Abuja creates dependency, kills local initiative and creates political unrest. The governance of resources is not just a technical fiscal problem as the Niger Delta agitation has shown but a key determinant of national cohesion, political stability, and the future of the fair development in an oil based economy.

Conclusion

The study examined the interrelationships among oil dependence, fiscal federalism, and regional inequality in Nigeria over a fifty-year period (1970–2020). The findings reveal that since the 1970s, petroleum has dominated the Nigerian economy, serving as the primary source of government revenue and foreign exchange earnings. However, this heavy reliance on oil has weakened economic diversification and increased the country's vulnerability to fluctuations in global oil prices. The study further established that Nigeria's fiscal federal system, particularly the centralisation of oil revenues through the Federation Account, has reinforced structural imbalances and constrained the fiscal autonomy of sub-national governments.

Although the derivation principle provides additional allocations to oil-producing states, it has not adequately addressed the environmental degradation, infrastructural deficits, and socio-economic marginalisation experienced by many host communities. Consequently, the concentration of oil wealth at the federal level has perpetuated regional inequalities between oil-producing and non-oil-producing areas and has contributed to socio-political tensions across the country.

Furthermore, the study found that these structural imbalances have sustained disparities in human development, income distribution, and access to essential public services. The consequences of inequitable revenue allocation and the marginalisation of oil-producing communities are reflected in the recurring resource-control agitations in the Niger Delta, expressed through both peaceful advocacy and militant resistance. While interventions such as the 2009 Amnesty Programme contributed to reducing violent conflict, they failed to resolve the underlying structural problems associated with the centralisation of petroleum resource governance.

The study therefore concludes that meaningful reforms are required to promote fiscal decentralisation, diversify the national economy, ensure a more equitable revenue-sharing system, and strengthen the participation of host communities in decisions relating to petroleum resource management. Addressing these structural challenges is essential for achieving equitable regional development, reducing socio-political tensions, enhancing political stability, and fostering sustainable economic growth in Nigeria.

Endnotes

1. L. Emediegwu & A. Okeke, "Dependence on oil: What do statistics from Nigeria show?" *Journal of Economics and Allied Research, 2*:1 (2017), 110-125.
2. Ngozi Okonjo-Iweala, *Reforming the Unreformable: Lessons from Nigeria* (London: The MIT Press, 2012), 2-3.
3. See https://www.cbn.gov.ng/out/2020/ccd/... "Central Bank of Nigeria Communiqué No. 132 of the Monetary Policy Committee Meeting held on 21st and 22nd September, 2020"; see also Emmanuel I. Umeonyirioha, "Negative Impact of Covid-19 on Oil Price and Export: An Assessment of Counter-Measures Taken by the Nigerian Government." *J Eco Res & Rev, 2*:1 (2022): 69-76.
4. See https://www.thecable.ng/13-derivation-oil-producing-states-shared-n620bn-in-five-months-up-by-100/
5. Chukwunonye Abovu Akujuru, "Revenue Allocation in Nigeria and the dependency on oil revenue: The need for Alternative Solutions", *Global Journal of Arts Humanities and Social Sciences*, *Vol.3* No2 (2015), 9-36.
6. Akujuru, "Revenue Allocation in Nigeria… 9-36.
7. See R. M. Auty, *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. (London: Routledge, 1993).
8. See E. Obadare, "Dependency Theory." *Council on Foreign Relations, 2023*. https://www.cfr.org/articles/dependency-theory?utm_
9. See World Bank Report No. 1690a-UNI Nigeria Recent Economic Developments and Short-Term Prospects December 23, 1977. https://documents1.worldbank.org/curated/en/348381468333903831/pdf/multi0page.pdf
10. See World Bank Report No. 1690a-UNI
11. Ernest Aniche, "Oil Joint Venture Partnerships and Nigerian Economy" University of Nigeria Journal of Political Economy, Vol 7 No 1&2 (2014), 1-24.
12. S. N. Udeh, I. Onwuka, and E. Agbaeze, "Resolving Nigeria's Dependency on Oil: The Derivation Model, Journal of African Studies and Development", *Journal of African Studies and Development, 7:*1 (2015), 1-14.

13. Federal Republic of Nigeria, The 1999 Constitution (as amended) (Lagos: Government Press, 1999).
14. Federal Republic of Nigeria, The 1999 Constitution (as amended)
15. See *The Nation* newspaper, February 3, 2026. https://thenationonlineng.net/senate-moves-to-increase-federal-share-of-revenue-seeks-review-of-allocation-formula/
16. Evi Frank Owisi & F.A. Ikenga, "Interventionist Agencies and the Development of the Niger Delta Region: A Study of the Niger Delta Development Commission (NDDC)", *International Journal of Spectrum Research in Social and Management Sciences (IJSRSMS) 1:*4 (2025), 80-97.
17. Owisi & Ikenga, "Interventionist Agencies and the Development of the Niger Delta Region… 80-97.
18. Owisi & Ikenga, "Interventionist Agencies and the Development of the Niger Delta Region… 80-97.
19. Owisi & Ikenga, "Interventionist Agencies and the Development of the Niger Delta Region… 80-97.