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FISCAL FEDERALISM AND NATIONAL DEVELOPMENT IN NIGERIA'S FOURTH REPUBLIC (2015-2023): CHALLENGES AND POLICY IMPERATIVES

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Abstract
The study examines fiscal federalism and national development in Nigeria's fourth republic (2015-2023), challenges and policy implications. Despite constitutional guarantees of federalism, resource allocation, accountability, and institutional efficiency remain problematic, undermining the country's development trajectory. The study is anchored on Musgrave's Fiscal Federalism Theory (1959), which posits that the central government should allocate adequate resources to subnational governments to enhance their functional capacity and promote equitable development. Employing a descriptive research design, the study relies exclusively on secondary sources, including government reports, academic literature, and policy documents, and applies qualitative content analysis to examine the structures, practices, and outcomes of fiscal federalism in Nigeria. Findings indicate that the fiscal system continues to exhibit centralizing tendencies, weak accountability, political interference, and persistent vertical and horizontal imbalances, while constitutional ambiguities hinder effective intergovernmental resource management. The study concludes that these structural deficiencies constrain national development despite fiscal federalism's theoretical promise. It recommends targeted constitutional reforms to empower state governments to diversify revenue sources, strengthen fiscal autonomy, and foster a more balanced and sustainable system, thereby enhancing equitable development outcomes and improving the overall efficiency of the Nigerian fiscal system.
Keywords: Challenges, Fiscal federalism, National development, Nigeria, Policy

Introduction

Fiscal federalism refers to the component of federalism that governs the allocation of financial resources, revenue-raising powers, expenditure responsibilities, and intergovernmental transfers across different tiers of government. It operationalizes the constitutional divisions of authority inherent in federal systems, translating abstract legal provisions into functional fiscal arrangements. Without sound fiscal frameworks, the formal separation of powers in federal constitutions can become nominal, resulting in weak policy implementation, vertical imbalances, and intergovernmental conflicts (Organization for Economic Co-operation and development, 2022).

The World Bank (2022) emphasizes that intergovernmental fiscal relations significantly influence equity, accountability, and the effectiveness of service delivery. In developing federations, where fiscal capacity and administrative competence are often

uneven, equalization transfers are essential to mitigate regional disparities and promote national cohesion. From the perspective of public finance theory, the core logic of fiscal federalism encompasses the assignment of revenue sources, allocating mobile tax bases (e.g., corporate and trade taxes) to the central government, while assigning less mobile bases (e.g., land and property taxes) to subnational governments.

It also involves the assignment of expenditure responsibilities, specifying which level of government delivers particular public goods, such as local services versus national defense. Intergovernmental transfers and equalization mechanisms are designed to correct for differences in fiscal capacity, need, and disparities among subunits, thereby underpinning the rationale for fiscal federalism. These components are critical because the absence of effective fiscal federalism can lead to vertical fiscal imbalances, leaving subnational governments with greater expenditure obligations than revenue-raising power, making them dependent on transfers (Sanders, 2024).

In Nigeria, fiscal federalism has faced persistent challenges and disputes over equitable revenue sharing. In response, the National Revenue Mobilization, Allocation, and Fiscal Commission (NRMAFC), was established in 2000 as a constitutionally empowered entity responsible for regulating revenue allocation among the tiers of government (Ajulor & Ibikunle, 2021). Against this backdrop, and informed by recent empirical evidence showing that over four-fifths of Nigerian states' recurrent revenues are derived from federal allocations rather than internally generated revenue (NBS, 2023), this study interrogates Nigeria's fiscal federalism framework to assess how existing revenue assignment, intergovernmental transfers, and equalization mechanisms shape subnational fiscal autonomy, service delivery outcomes, and the persistence of vertical and horizontal fiscal imbalances. This paper is structured into the following sections: abstract, introduction, statement of the problem, objectives of the study, conceptual clarifications, and literature review.

Statement of the Problem

Since the advent of Nigeria's Fourth Republic in 1999, the country has operated a federal system intended to promote fiscal autonomy and intergovernmental cooperation. In reality, however, the system has been characterized by excessive fiscal dependence, weak coordination, and significant revenue inequalities across government tiers (Nchuchuwe & Adejuwon, 2015; Odegbami & Osungboye, 2019). The federal government's preeminence in revenue generation and distribution has limited the fiscal independence of states and local governments, making subnational entities heavily reliant on statutory allocations. This dependence undermines innovation, reduces accountability, and weakens the capacity of local governments to implement effective development planning and deliver essential services. Additionally, persistent vertical and horizontal fiscal imbalances have intensified disparities in economic performance among states, with some regions disproportionately benefiting from federal allocations while others remain financially constrained (Ikeanyibe & Omodero, 2024). Compounding these challenges, the revenue allocation formula is frequently criticized for political bias, opacity, and inequitable distribution, generating recurring tensions between the federal, state, and local governments (Basu, 2022). These systemic inefficiencies highlight the critical problem: despite constitutional guarantees of fiscal federalism, Nigeria's fiscal architecture continues to hinder equitable development and the attainment of national developmental objectives

Research Questions

1. How is fiscal federalism practiced and implemented in Nigeria's Fourth Republic?
2. What has been the impact of fiscal federalism on national development in Nigeria during this period?

3. What are the challenges confronting the effective practice of fiscal federalism in Nigeria's Fourth Republic?
4. What are the policy imperatives of Nigeria's fiscal federalism framework for improving intergovernmental fiscal relations, and national development?

Objectives of the Study

This study investigates the relationship between fiscal federalism and national development in Nigeria's Fourth Republic (2015–2023). Specifically, the study seeks:

1. To examine the practice and implementation of fiscal federalism in Nigeria's Fourth Republic.
2. To evaluate the impact of fiscal federalism on national development outcomes during the period under review.
3. To identify challenges confronting effective practice of fiscal federalism in Nigeria's Fourth Republic.
4. To ascertain policy imperatives of Nigeria's fiscal federalism framework for improving intergovernmental fiscal relations and national development.

Conceptual Clarifications

Fiscal Federalism

The word "fiscal" refers to anything concerning government finances in terms of revenue and expenditures, as well as taxes and public debts. In terms of policy, fiscal policies are policies concerning the use of revenue and expenditure in regulating the economy of a state. The combination of both words "fiscal" and "federalism" is what culminates into the term 'fiscal federalism'. Ekeuwei and Akpan (2022) defined fiscal federalism as the interplay of allocation of financial functions and responsibilities between the various tiers of government. It involves the activities of the different levels of government in the financial setup of a state either in the form of revenue collection (taxes and equities) or expenditure.

Fiscal federalism allocates responsibilities to the tiers of government through allocation, distribution and stabilization of finances. It is also notable to state that fiscal federalism does not only emphasize the relationship of the tiers of government in managing the revenue and expenditure of the country, but also determines who owns or controls what, who gets what, how, and who losses out as well. Thus, fiscal federalism is an overarching and prominent aspect of federalism because without the availability of revenues and allocations, no state can survive developmentally. It is therefore veritable to organize and determine the conditions and contracts of fiscal relationships between the centre and the regions to ensure financial equity and even development (Ekeuwei & Akpan 2022).

To Ucheoma and Adiele (2019), fiscal federalism is concerned with "understanding which functions and instruments are best centralized and which is best placed in the sphere of decentralized levels of government". In other words, it is the study of how competencies (expenditure side) and fiscal instruments (revenue side) are allocated across different (vertical) layers of the administration. An important part of its subject matter is the system of transfer payments or grants by which a central government shares its revenues with lower levels of government. Fiscal federalism is characterized by the fiscal relations between central and lower levels of government. Fiscal federalism covers two interconnected areas. The first is the division of competence in decision making about public expenditures and public revenue between the different levels of government (national, regional, and local). The second is the degree of freedom of decision making enjoyed by regional and local authorities in the assessment of local taxes as well as in the determination of their expenditures.

National Development

National development is a multidimensional concept that involves various sectors, including education, health, infrastructure, governance, and economic policies. It is crucial for creating sustainable and equitable growth that benefits all segments of society. Okobia, (2024), said that National development is the capacity of a country to enhance the social well-being of its citizens by developing its human capital through infrastructural, industrial, and technical innovations.

Fourth Republic

The fourth republic in Nigeria began in 1999 to date. It will cease to be called the fourth republic once there is an interruption, especially a military coup**.**

Fiscal Federalism in Nigeria's Fourth Republic

Fiscal federalism in Nigeria's Fourth Republic, particularly between 1999 and 2023, evolved from a long history of centralized political and revenue control dating back to the military era. The 1999 Constitution retained a unitary-leaning fiscal structure in which the federal government controls the most strategic revenue sources, notably petroleum proceeds, customs duties, and company income taxes, while states and local governments remain heavily reliant on federally distributed allocations (Suberu, 2021). Consequently, upon the return to democracy, Nigeria inherited a revenue-centralized federal system rather than a fully decentralized one, making vertical allocation and revenue dependence by subnational units pervasive.

The Revenue Mobilisation, Allocation, and Fiscal Commission (RMAFC) maintained a vertical revenue-sharing formula allocating 52.68% of federally collected revenues to the federal government, 26.72% to the states, and 20.60% to local governments (RMAFC, 2020). While this formula was justified on the grounds of national defense, currency regulation, and foreign policy responsibilities of the federal government, scholars argue that it entrenched vertical fiscal imbalances, leaving subnational governments without adequate revenue to perform constitutionally assigned developmental functions (Ojo, 2022; Nwosu, 2024). Tensions over resource ownership were particularly pronounced in oil-producing states, resulting in the adoption of the 13% Derivation Principle, which allows resource-producing states to retain a share of revenue generated within their territories prior to federal pooling. However, despite increased oil revenue transfers, states remain fiscally dependent due to weak internally generated revenue structures (Ayuba, 2023; Okafor & Ekanem, 2021).

Throughout the Fourth Republic, attempts to reform fiscal federalism, including proposed constitutional amendments for state policing, state-level Value Added Tax administration, and enhanced subnational tax autonomy, have been met with limited success. The federal government continues to exercise substantial fiscal control, sustaining debates on genuine federalism, fiscal restructuring, and national equity (Fenna, 2019; Ifegwu & Eberinwa, 2023). Overall, fiscal federalism in Nigeria's Fourth Republic is characterized by centralized revenue powers, high subnational expenditure pressures, heavy dependence on federal allocations, and ongoing contestations over derivation and resource control, which continue to shape national development outcomes across the country.

Literature Review

Impact of Vertical Revenue Allocation on National Development in Nigeria

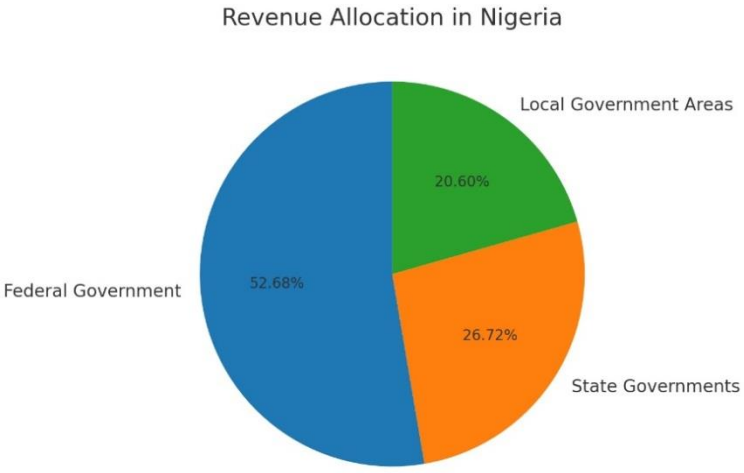
Revenue allocation is a core component of Nigeria's fiscal federalism, as it determines how national income is distributed among the three tiers of government: federal, state, and local. The vertical allocation specifically refers to the proportion of revenue distributed across these tiers. Nigeria currently allocates approximately 52.68 % to the Federal Government, 26.72 %

to the States, and 20.60 % to Local Governments (Hernandez, et al., 2024; ThisDay Live, 2021). This distribution framework directly influences national development outcomes since it determines the resource availability for critical functions such as education, health, and infrastructure.

Vertical revenue allocation represents the sharing of financial resources between different levels of government in a federal system. It is designed to correct vertical fiscal imbalances that arise when expenditure responsibilities of subnational governments exceed their revenue capacities (World Bank, 2021). In Nigeria, such imbalances are pronounced because major revenue sources especially oil rents, customs duties, and value-added taxes are centralized at the federal level, while subnational governments bear heavy expenditure responsibilities (Ifegwu & Eberinwa, 2023; Okeke & Eme, 2013). The purpose of vertical revenue allocation is to promote balanced development, enhance efficiency in resource use, and strengthen fiscal capacity across all tiers of government (Fenna, 2019). However, when vertical allocation heavily favours the central government, it can create inequities and hinder grassroots development (Auel & Hoing, 2022).

Nigeria's Vertical Revenue Allocation Structure

The Nigerian Federation Account Allocation Committee (FAAC) implements vertical sharing based on a formula proposed by the Revenue Mobilization Allocation and Fiscal Commission (RMAFC). The current formula of 52.68 % for the federal, 26.72 % for states, and 20.60 % for local governments has been criticized as being over-centralized (Hernandez, et al, 2024). Ifegwu & Eberinwa (2023) argue that the federal government's dominant share has limited the financial autonomy of subnational governments, leading to heavy dependence on statutory transfers (Ifegwu & Eberinwa, 2023). For example, more than 25 states in Nigeria rely on FAAC allocations for over 80 % of their total revenues (World Bank, 2021). This dependency weakens subnational fiscal responsibility and undermines developmental initiatives (Okonkwo, 2021).



The pie chart above shows revenue allocation formular in use 2015-2023.
Source: Research Data, 2025.

Impact Vertical Revenue on National Development

Empirical evidence shows that vertical revenue allocation significantly affects Nigeria's economic growth (Sylvester & Ade, 2018). Using GDP as the dependent variable, Sylvester and Ade (2018), found that federal allocations have a strong positive impact on growth, while state and local allocations exhibit weaker or statistically insignificant effects. This suggests that while vertical allocations matter, the efficiency of fund utilization varies across tiers.

Similarly, Nwosu (2024) argued that an imbalanced allocation system reduces aggregate output by limiting the ability of subnational governments to invest in productive infrastructure. States with low internally generated revenue (IGR) often lack the capacity to initiate long-term developmental projects, thereby widening regional disparities in national development outcomes.

The concentration of fiscal power at the centre has serious implications for service delivery. According to the Nigeria Integrated National Financing Framework (INFF, 2023), vertical imbalance undermines local infrastructure and social service provision, as states and local governments lack sufficient funds to meet their constitutional responsibilities. Mensah (2019) notes that sustainable development requires fiscal decentralization that allows resources to be managed closest to where they are needed. When allocations to subnational governments are inadequate, essential services such as healthcare, education, and rural roads suffer, impeding progress toward national development goals (Anan, Ijiu, Ironbar, Otu, Dike, & Ebe, 2024).

An inequitable vertical allocation formula also affects regional equity and poverty reduction. Hernandez et al. (2024) show that states in the oil-rich Niger Delta receive more development expenditure through federal projects, while poorer northern states rely almost entirely on shared revenues. This structural imbalance contributes to uneven development and regional tensions, thereby affecting the broader trajectory of national development (Ifegwu & Eberinwa, 2023).

Challenges Confronting Effective Practice of Fiscal Federalism in Nigeria's Fourth Republic

The challenges confronting the effective practice of fiscal federalism in Nigeria's Fourth Republic reflect significant deviations from the normative allocation of fiscal responsibilities among the tiers of government. Musgrave's framework emphasizes a functional balance between decentralization for efficiency under the allocation function and centralization for equity and macroeconomic stability under the distribution and stabilization functions. Empirical literature, however, indicates that Nigeria's fiscal federalism has struggled to achieve this balance in practice.

A major challenge is excessive fiscal centralization, which directly contradicts Musgrave's allocation principle. Musgrave argues that subnational governments are better positioned to efficiently provide local public goods due to their proximity to citizens and superior knowledge of local preferences (Musgrave, 1959). In Nigeria, the federal government retains control over the most buoyant revenue sources, particularly oil revenues, leaving states and local governments fiscally constrained. This over centralization undermines allocative efficiency and weakens the capacity of subnational governments to address local development needs effectively (Arowolo, 2011; Oates, 1972).

Closely associated with fiscal centralization is the problem of vertical fiscal imbalance, which arises from the mismatch between revenue-raising powers and expenditure responsibilities. Although Musgrave acknowledges that such imbalances may occur in federal systems, he emphasizes the need for corrective intergovernmental transfers to preserve efficiency and accountability. In Nigeria's Fourth Republic, however, persistent vertical fiscal imbalance has entrenched excessive dependence on federal allocations, reducing fiscal discipline and weakening incentives for subnational governments to improve service delivery (Olayinka & Adekola, 2024). This situation undermines Musgrave's assumption that decentralization enhances efficiency when expenditure responsibilities are matched with adequate fiscal capacity.

The challenge of weak internally generated revenue (IGR) capacity among Nigerian states further erodes Musgrave's allocation function. Musgrave's framework assumes that subnational governments possess both the authority and incentive to mobilize local revenues.

Empirical evidence shows that most Nigerian states rely heavily on federal transfers rather than developing sustainable internal revenue bases. This reliance diminishes fiscal autonomy and weakens the accountability relationship between taxation and public expenditure, contrary to Musgrave's decentralization logic (Nteegah, 2023).

Nigeria's overdependence on oil revenue poses a serious challenge to Musgrave's stabilization function. While macroeconomic stabilization is appropriately centralized, the volatility of oil revenues undermines the effectiveness of stabilization policies and exposes all tiers of government to fiscal shocks. This weakens the federal government's ability to smooth economic cycles and maintains fiscal stability, limiting the realization of Musgrave's stabilization objective (Ekpo, 2016; Umar, 2024).

The contentious revenue allocation formula in Nigeria also reveals weaknesses in the distributive function of Musgrave's theory. Musgrave assigns redistribution to the central government to reduce regional disparities and promote equity. However, Nigeria's revenue-sharing arrangements have failed to adequately address inequalities among states, resulting in persistent horizontal disparities and intergovernmental tensions (Suberu, 2007; Okobia & Mahmud, 2025).

Another significant deviation from Musgrave's allocation principle is the erosion of local government fiscal autonomy, particularly through the State Joint Local Government Account. State control over local government finances has weakened grassroots service delivery and undermined the efficiency gains expected from fiscal decentralization (Emoghene & Oluyemi, 2025).

Weak intergovernmental fiscal coordination, compounded by political interference, elite capture, and corruption, further distorts all three Musgravean functions. These factors compromise allocative efficiency, undermine equitable redistribution, and weaken stabilization efforts, thereby reducing the developmental impact of fiscal federalism (Akindele & Olaopa, 2002; Ekpo, 2016; Transparency International, 2023).

The challenges confronting fiscal federalism in Nigeria's Fourth Republic reveal a substantial gap between Musgrave's theoretical prescriptions and fiscal practice. Persistent fiscal centralization, weak subnational autonomy, ineffective redistribution, and poor coordination have undermined the realization of allocation, distribution, and stabilization objectives. Addressing these challenges requires reforms that realign Nigeria's fiscal federalism framework with Musgrave's normative principles to enhance efficiency, equity, and macroeconomic stability.

Policy Imperatives of Nigeria's Fiscal Federalism Framework for improving intergovernmental fiscal relations, and national development

Musgrave's Fiscal Federalism Theory provides a normative framework for evaluating Nigeria's fiscal federalism and articulating policy imperatives for improving intergovernmental fiscal relations and national development. Musgrave identifies three core functions of public finance allocation, distribution, and stabilization which, when properly aligned with institutional practice, enhance efficiency, equity, and macroeconomic stability. Nigeria's fiscal federalism framework, however, requires targeted reforms to fully realize these functions. Under Musgrave's allocation function, fiscal decentralization is expected to promote efficiency in the provision of public goods by assigning expenditure responsibilities to the level of government closest to the people.

A key policy imperative for Nigeria is therefore the strengthening of fiscal decentralization, particularly through the devolution of greater revenue-raising powers to states and local governments. Excessive fiscal centralization has constrained subnational governments' capacity to respond to local development needs. Enhancing internally generated revenue (IGR) capacity and clarifying expenditure assignments would improve accountability and service delivery outcomes (Musgrave, 1959; Olayinka & Adekola, 2024;

Nteegah, 2023). Closely related is the need to restore local government fiscal autonomy, especially by reforming the State Joint Local Government Account, which has weakened grassroots development and allocative efficiency (Emoghene & Oluyemi, 2025).

Musgrave's distribution function assigns responsibility for equity and income redistribution largely to the central government. In this regard, a major policy imperative is the reform of Nigeria's intergovernmental revenue allocation and transfer system to better address horizontal fiscal imbalances. Existing revenue-sharing arrangements have not adequately reduced regional disparities, leading to uneven development and persistent intergovernmental tensions. Introducing a more transparent, formula-based equalization mechanism that accounts for fiscal capacity and development needs would enhance equity and strengthen national cohesion (Suberu, 2007; Okobia & Mahmud, 2025). Targeted grants and redistributive spending aimed at disadvantaged regions would further reinforce the distributive role of fiscal federalism and improve intergovernmental trust (Ekpo, 2016).

With respect to Musgrave's stabilization function, macroeconomic stability is best managed by the central government due to its control over monetary and fiscal policy instruments. In Nigeria, a critical policy imperative is the reduction of overdependence on oil revenue, which has exposed all tiers of government to fiscal volatility and economic shocks. Strengthening stabilization mechanisms such as fiscal buffers, stabilization funds, and countercyclical transfer arrangements would improve resilience and fiscal sustainability (Ekpo, 2016; World Bank, 2020). Effective stabilization also requires improved intergovernmental fiscal coordination, ensuring that federal fiscal policies are consistently transmitted across states and local governments to avoid policy conflicts and inefficiencies (Akindele & Olaopa, 2002).

Theoretical Framework

Musgrave's Fiscal Federalism Theory, propounded by **Richard A. Musgrave (1959),** provides a normative framework for the allocation of fiscal responsibilities among different levels of government in a federal system. The theory is anchored on the premise that government functions should be distributed in a manner that promotes **efficiency, equity,** and **macroeconomic stability**. Musgrave identified three fundamental functions of government **allocation, distribution,** and **stabilization** which collectively form the intellectual foundation of fiscal federalism.

Musgrave's theory rests on several core assumptions. First, government responsibilities can be functionally differentiated into allocation, distribution, and stabilization roles, each requiring different institutional arrangements. Second, decentralization enhances efficiency because subnational governments are closer to citizens and better informed about local preferences. Third, income redistribution should be centralized to avoid fiscal competition and widening regional inequality. Fourth, macroeconomic stabilization must remain the responsibility of the central government due to economy-wide spillover effects. Finally, fiscal imbalances are inevitable in federal systems and should be addressed through structured intergovernmental transfers and coordination mechanisms (Musgrave, 1959).

Nigeria operates a constitutionally defined federal system comprising the federal, state, and local governments. The fiscal framework is characterized by centralized control over major revenue sources particularly oil and gas while expenditure responsibilities are largely decentralized. Federally collected revenues are distributed through a statutory revenue allocation formula intended to correct vertical and horizontal fiscal imbalances. Although this framework aligns in principle with Musgrave's emphasis on intergovernmental transfers, empirical studies show that Nigeria's fiscal system is highly centralized, resulting in weak fiscal autonomy for subnational governments (Olayinka & Adekola, 2024). This structural imbalance has significant implications for the effectiveness of fiscal decentralization and intergovernmental relations.

Musgrave posits that the allocation of public goods should be decentralized to enhance efficiency. In Nigeria, states and local governments are constitutionally responsible for providing basic services such as primary education, healthcare, and local infrastructure. However, empirical evidence indicates that limited revenue autonomy and overdependence on federal transfers have constrained the ability of subnational governments to deliver these services effectively (Emoghene & Oluyemi, 2025). Olayinka and Adekola (2024) further demonstrate that weak internally generated revenue (IGR) performance among states undermines the efficiency gains expected from decentralization.

According to Musgrave, redistribution should be centralized to ensure equity and prevent inter-jurisdictional disparities. Nigeria's revenue allocation system and derivation principle are intended to serve this redistributive purpose. Nonetheless, empirical studies reveal persistent inequalities in revenue capacity, infrastructure, and social development across states, suggesting that the redistributive function has not achieved its intended outcomes (Okobia & Mahmud, 2025; Nteegah, 2023). These disparities contradict Musgrave's equity objective and highlight weaknesses in Nigeria's fiscal redistribution mechanisms.

Musgrave argues that macroeconomic stabilization should be centrally managed. Nigeria's fiscal practice conforms to this assumption, as macroeconomic policy coordination, debt management, and monetary policy are handled by federal institutions. However, empirical evidence shows that Nigeria's heavy dependence on volatile oil revenues has undermined effective stabilization, exposing subnational governments to fiscal shocks beyond their control (Akujuru & Tuoyo, 2025).

Several challenges in Nigeria's fiscal federalism have been identified. They include severe **vertical fiscal imbalance**, weak subnational revenue capacity, erosion of local government autonomy through the State Joint Local Government Account, and uneven development outcomes across regions (Emoghene & Oluyemi, 2025; Olayinka & Adekola, 2024). These challenges indicate significant deviations from Musgrave's theoretical prescriptions, particularly regarding efficient decentralization and equitable distribution. Drawing from Musgrave's Fiscal Federalism Theory and Nigerian empirical findings, several policy imperatives emerge. First, fiscal decentralization should be strengthened through the devolution of greater taxing powers to states to improve efficiency in service delivery. Second, revenue allocation and transfer mechanisms should be reformed to promote equity, transparency, and fiscal responsibility. Third, subnational governments must be incentivized to expand their internally generated revenue bases. Fourth, local government fiscal autonomy should be protected through reforms of institutional constraints such as the State Joint Local Government Account. Finally, stronger intergovernmental fiscal coordination mechanisms are required to enhance policy coherence and national development outcomes (Okobia & Mahmud, 2025; Nteegah, 2023).

Musgrave's Fiscal Federalism Theory provides a robust analytical lens for evaluating Nigeria's fiscal federalism. While Nigeria's constitutional framework reflects the theory's core principles, empirical evidence reveals substantial gaps between theory and practice. Addressing these gaps through targeted fiscal reforms is essential for improving intergovernmental fiscal relations and achieving sustainable national development.

Methodology

This study adopted a descriptive research design relying on secondary data to analyze the topic under study. Data were sourced from peer-reviewed journal articles, official reports, policy documents, and credible online data base. Relevant materials were identified through systematic searches in reputable websites. Validation of data was done through cross-referencing across multiple sources to ensure accuracy and consistency. Reliability was maintained through the use of peer-reviewed materials and journal papers.

Results and Discussions

The practice of fiscal federalism in Nigeria is characterized by a pronounced concentration of powers at the federal level, often undermining the autonomy and fiscal capacity of subnational units. Constitutionally, the federal government is empowered to legislate on sixty-eight subjects in the Exclusive Legislative List and thirty matters in the Concurrent Legislative List. In instances of legislative overlap or conflict, the supremacy clause renders state laws null and void, effectively reinforcing federal dominance and limiting the policy and fiscal discretion of state governments (Anthony, 2019). As a result, functions and activities that could be effectively administered by states or local governments are often centralized, creating a structural imbalance that contradicts the principles of fiscal federalism.

From a Musgravean perspective, this over centralization directly undermines the allocation function of fiscal federalism, which emphasizes the efficient provision of local public goods by the government closest to the citizens (Musgrave, 1959). By monopolizing fiscal authority and decision-making, the federal government reduces the responsiveness of subnational governments to local needs and diminishes the efficiency gains anticipated from decentralization. Consequently, states and local governments are constrained in their ability to tailor development interventions to local contexts, weakening service delivery outcomes.

A related structural challenge is the persistence of vertical fiscal imbalances, wherein subnational expenditure responsibilities far exceed their revenue-generating capacity. Evidence from the Nigeria Integrated National Financing Framework (INFF, 2023) highlights that these imbalances restrict states' and local governments' ability to fund critical infrastructure and social services independently. Overreliance on federal allocations perpetuates dependency, reduces fiscal accountability, and limits the effectiveness of intergovernmental fiscal arrangements. From Musgrave's perspective, vertical imbalances compromise both the allocation and stabilization functions, as subnational governments lack the resources to respond efficiently to local public demands, while fiscal volatility at the federal level propagates instability across all tiers of government.

Critically examining the causes of these imbalances reveals a combination of constitutional design, revenue concentration, and policy centralization. The legal supremacy of federal legislation, coupled with the allocation of major revenue sources such as oil rents to the central government, structurally limits subnational fiscal autonomy. This centralization perpetuates inequalities between resource-rich and resource-poor states, intensifying horizontal fiscal disparities. The differential impact is evident when comparing states with substantial internally generated revenue (IGR) capacity to those heavily reliant on statutory transfers, highlighting uneven development outcomes across the federation.

The consequences for national development are profound. Federal dominance and vertical imbalances weaken the ability of subnational governments to invest in education, healthcare, and infrastructure, thereby constraining human capital development and inclusive growth. Moreover, these structural issues exacerbate regional inequalities, fuel intergovernmental tensions, and hinder cooperative fiscal arrangements that are essential for a functional federal system.

To strengthen the analytical depth of the study, it is important to integrate comparative and temporal evidence, examining how fiscal imbalances have evolved over successive administrations and their differential effects across states. Linking these findings explicitly to Musgrave's fiscal federalism theory allows for a theoretical interpretation of the inefficiencies, inequities, and developmental gaps observed, providing a robust framework for policy-oriented.

Conclusion

The evolution of fiscal federalism in Nigeria reflects a marked centralization of fiscal authority, often to the detriment of subnational governments. From a relatively regionally

autonomous system under the 1954 Constitution, the country has transitioned into a highly centralized federation in which the federal government retains control over the majority of revenue sources. This centralization has significant implications for national development, equity, and fiscal sustainability. While the federal government commands a dominant share of revenues, subnational fiscal fragility continues to constrain the capacity of states and local governments to deliver essential services, undermining equitable development and the effective functioning of Nigeria's federal system. The persistent vertical and horizontal imbalances underscore the need for structural reforms to achieve a more balanced and sustainable fiscal framework that can support inclusive national development.

Recommendations

1. The fiscal dominance of the federal government should be mitigated through greater decentralization of revenue generation and collection, thereby enhancing the fiscal autonomy of subnational governments.
2. The vertical revenue allocation formula should be revised to favour subnational governments, thereby addressing fiscal imbalances and strengthening their capacity to deliver essential services.
3. **The federal government should enhance subnational fiscal autonomy** by granting states and local governments greater revenue-raising powers and discretion over expenditure responsibilities.
4. **Reform the intergovernmental revenue allocation system** to establish a transparent, formula-based mechanism that ensures equitable distribution of resources among states.

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