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Interrogating Nigeria's Federal System: Between Centralisation and The Quest for True Federalism

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Abstract

Nigeria's federal system, established at independence in 1960, has long been criticised for deviating from the core principles of genuine federalism. This study therefore evaluates the extent to which Nigeria's constitutional and operational frameworks align with normative federalism, focusing on power devolution, fiscal federalism, and governance outcomes. Employing a qualitative approach grounded in classical and contemporary federalism theories, the research combines documentary analysis with primary data from 20 purposively selected elite structured interviews across selected states in Nigeria. Key informants included political scientists, constitutional lawyers, senior public officials, policymakers, and civil society leaders engaged in federalism debates. Secondary sources comprised the 1999 Constitution (as amended), policy statements, constitutional conference reports, and scholarly literature. Data were analysed through thematic content analysis to identify recurrent patterns and anomalies in Nigerian federal practice. The study findings reveal a highly centralised federation that significantly departs from true federalism's cardinal features: substantial subnational autonomy, resource decentralisation, and cooperative intergovernmental relations. Excessive concentration of legislative, administrative, and fiscal powers at the federal centre has undermined state capacity, deepened regional disparities, and fuelled ethnic and political tensions. It is the contention of the study that Nigeria's federal crisis is primarily institutional and operational rather than conceptual. Conclusively, this study opines that sustainable democratic stability, improved governance, and national unity require far-reaching constitutional reforms to achieve genuine power devolution, equitable fiscal federalism, and robust mechanisms for intergovernmental coordination.

Keywords:

Federalism, Fiscal Federalism, Governance, Inequity and Revenue Allocation

1.0 Introduction

Federalism is a key component of many federal states, particularly in complex and pluralistic divided societies. Federalism is created through a constitutional division of authority or powers between several tiers of government to help maintain self-determined governance, accountability, and stability. However, Omotoso (2010) submits that while the design of federalism may be contained within a constitution, federalism does not achieve success unless constitutional

power is transformed into practice through fiscal systems and intergovernmental relations. Developing countries with a federal structure frequently experience tension between constitutional federalism and administrative centralism, leading to long-term governance difficulties and prompting doubts about the viability and operation of federalism.

Nigeria's experience with federalism typifies this disparity between form and reality; while Nigeria is constitutionally recognised as a federal state, as defined by the 1999 Constitution, Nigeria has a centralised political and fiscal system that restricts the right of state and local governments to determine their own policies and to govern themselves independently. Reacting to the above assertion, Nwaguru (2025) opines that the effects of military rule on the creation of Nigeria's federal structure resulted in a focus on centralising power and authority and limiting the ability of state and local governments to be successful in their role as independent governmental units. Today, as many of the consequences of military rule persist in Nigeria with a democratic government, Nigeria continues to experience major national and sub-national income imbalances, an excessive reliance on federal funds, and a lack of innovative public policy development capacity at both the state and local levels.

In their argument, Okafor and Eze (2023) contend that dissatisfaction with the federal system of government since 2019 has led to increased discussion/debate regarding restructuring, true federalism and resource control. Many recent studies have shown a continuing agitation, and a rising level of discontent with each region's level of government due to unfair revenue sharing, lack of fiscal decentralization and declining quality of subnational services. Empirical studies show an increase in intergovernmental tension, increased regional inequality and reduced national cohesion as a result of increasing centralization of governmental functions (Akindele and Olaopa, 2020). In this study, the federal question is examined by investigating the disconnect between the normative principles of federalism and the real-life application (empirical practice) of those principles in Nigeria. The study examines both the classical and contemporary theoretical perspectives of federalism related to Nigeria's experience, and concludes with an evaluation of whether the crisis in Nigeria is due to the lack of true federalism, or the deformed institutional perspective of existing federal system. The study therefore adds to the current academic and policy debates on constitutional reform, and fiscal federalism and governance restructuring in Nigeria.

For the purpose of achieving the central objective of this study, the work is organised into five sections. Section one is the introduction, giving general background information of the study and stating the problems. Section two focuses on the discourse of the concepts, empirical review and theoretical background of the study. The third section presents methodology employed in this paper. The fourth section attempts at delving into the results and discussion of findings obtained through the administration of interview instrument. Section five concludes the study and presents a set of recommendations for this study.

2.0 Conceptual Framework

This section of this paper reviews conceptual concerns related to revenue allocation, derivation, fiscal federalism, and federalism.

2.1 Federalism

In their submission, Kincaid and Tarr (2020) argue that federalism is a form of governance where the power vested by article ten is allocated both geographically through article eleven of the constitution between the central government and the constituent units. The main purpose of a federal system is to allow for incapacity, avoid the abuse of central power and to allow for greater efficiency in governance through allowing the constitution to confer powers to several decision-making bodies. In a plural society like Nigeria, Ohiomu and Oluyemi (2019 cited in Otinche and Aliyu, 2025) opine that federalism has been used as a way to manage conflict and create a balance between the unity of a nation and the diversity of its people.

Scholars differentiate between two kinds of federalism: symmetrical federalism and asymmetrical federalism; and two ways to exercise federalism: co-operative federalism and dual federalism. In symmetrical federalism, Fidelis (2024) opines that every constituent unit has the same power under the constitution, whereas asymmetrical federalism provides some constituent units more autonomy than others based on historical, ethnic, or economic differences. Co-operative federalism, which is becoming more common among federal states today, propagates and supports the idea of shared responsibility and collaboration between governments rather than a hard wall between powers. The viability of any federal system is not only determined by the constitution but also by political practices and Institutional mechanisms existing between all levels of government (Usman and Abdullahi, 2024).

In Nigeria, critics argue that despite its constitutional status as a federation, the dominance of the central government undermines subnational autonomy, rendering the system federal in form but unitary in practice. This disjuncture between theory and practice has fueled persistent debates on restructuring and true federalism.

2.2 Fiscal Federalism

According to Gbangboye (2019), in the field of economics, fiscal federalism is defined as the distribution of authority over taxes and the allocation of financial resources to various levels of government. Reacting to the assertions of Gbangboye, Ogunnubi (2022) submits that this conceptual framework states that the act of decentralizing government functions will allow the government to become more accountable to local citizens and be able to effectively match local needs with the use of public funds. On the other hand, the federal government will still be responsible for stabilizing the economy on a national level.

Okafor and Eze (2023) argue that two primary concepts are important to understanding fiscal federalism: vertical fiscal imbalance and horizontal fiscal imbalance. Vertical fiscal imbalance occurs when the revenue-raising capacity of an individual subnational government is less than the amount of money that government is required to spend, while horizontal fiscal imbalance occurs when there is a gap between the lower-level (subnational) governments' ability to generate income compared to other subnational governments. Intergovernmental transfers, usually in the form of revenue sharing and equalization grants, are often used to mitigate these types of fiscal imbalances.

In his argument, Ogunmoroti (2024) submits that fiscal federalism in developing countries (such as Nigeria) is usually limited by a lack of strong tax bases, administrative inefficiencies, and excessive reliance on the collection of national taxes by a central agency. In the case of Nigeria, fiscal federalism is heavily influenced by the collection and distribution of oil revenues, which have caused all levels of government to be financially dependent on money sent from the federal government. As a result, it has led to a lack of responsibility for the management of money at the smaller levels of government, and less ability to create new revenue to use for government purposes.

2.3 Revenue Allocation

According to Ewetan and Urenta (2020), the revenue sharing principles and formula mandate govern the allocation of centrally-generated revenues among different levels of government and into different units of government. Each level of government or constituent unit of government will share the same factors of equity, efficiency, derivation, need, population, and fiscal capacity. Within resource dependent federal systems, particularly in Nigeria, the derivation principle which states that the source of natural resources should be allocated revenue based on their place of origin has been the source of significant political contestation.

The Constitution of the Federal Republic of Nigeria and the Federal Account Allocation Committee (FAAC) are the basis for Nigeria's revenue allocation formula and the method by which it functions. The Nigerian revenue allocation infrastructure attempts to achieve balance between derivatives and national equities, but has been repeatedly criticized in the literature for creating a vertical fiscal imbalance and consequentially increasing the degree of fiscal centralization in Nigeria (Abada, Omeh, Ovaga, and Ugwuanyi, 2022). In addition, the dominance of oil in Nigeria's revenue structure has effectively distorted the fiscal incentives for development of internal revenue through the creation of cases for the states of Nigeria.

In his argument, Nwaguru (2023; 2025) submits that the current policy debate related to Nigeria's revenue allocation system seeks to enhance the revenue from non-oil taxation, improve transparency related to intergovernmental transfers, and create more effective equalization mechanisms, and be considered necessary to creating a functional fiscal federalism.

Succinctly, conceptually, federalism, fiscal federalism, and revenue allocation are deeply interconnected. Federalism without fiscal autonomy reduces subnational governments to administrative appendages, while poorly designed revenue allocation undermines equity and service delivery. In Nigeria, the persistent centralization of fiscal powers suggests that the challenge lies less in the absence of federal structures than in their institutional deformation. Addressing this requires coordinated constitutional, fiscal, and administrative reforms aimed at restoring balance within Nigeria's federal system.

2.4 Empirical Review

Between 1960-2025, empirical research has shown a continuation of a high level of fiscal centralisation and vertical imbalances within Nigeria's federal system. A cause of this continued high level of subnational dependency, uneven development, and demands for restructuring will continue to be the politicization of the distribution of statutory allocations. Some recent reviews are thus:

Otinche and Aliyu (2025) performed a robust econometric analysis of the relationship between Nigeria's fiscal federalism, statutory allocation and economic growth using quarterly data from the Central Bank of Nigeria from the first quarter of 2001 until the fourth quarter of 2023. Using an autoregressive distributed lag bounds testing approach, they found positive and statistically significant effects from federal allocations on GDP, while state and local government allocations had negative and statistically non-significant effects due to mismanagement and weak capacities to absorb statutory allocations. The error correction term of -0.152 indicates that the time it takes to correct is slow, and also affects the long-run inefficiencies of Nigeria's federal system caused by fiscal centralisation.

Similarly, Ojinnaka, Onyeka, Nwaguru, & Anukam (2024) used the ARDL approach using data from 1981-2023 to demonstrate a significant long-run positive relationship between fiscal decentralisation (both revenue and expenditure) and indicators of economic development. In their study, they found that a 1% increase in revenue decentralisation is associated with the approximately 0.66% increase in real GDP per capita growth potential due to the potential growth of genuine devolution, but noted that political resistance is the biggest barrier to this growth potential.

Ochinyabo's (2024) study is based on the effect of good governance on economic development through the lens of fiscal federalism in Nigeria, using data collected over 36 States in Nigeria from 2010 to 2022. The author used a fixed effects regression model to determine the following findings; "States with high internally generated revenue (IGR) ratios have significantly higher levels of human development and higher infrastructure scores than states that are heavily reliant on FAAC transfers." There is a strong negative correlation for states that are overly reliant on FAAC transfers and have lower-quality governance, lower economic growth and hence lower growth rates.

Usman and Abdullahi (2024) conducted a comparative analysis on the vertical and horizontal allocation of revenue in Nigeria, Brazil and India. Their analysis of the panel regression calculated that of the three countries, Nigeria has the highest level of vertical fiscal imbalance with the federal government retaining approximately 56 percent of the total revenue after allocating to state governments and less than 26 percent is retained by states for fiscal responsibilities. This leads to a growth penalty of approximately 10–12 percent compared to a system of more decentralized revenue allocation (Brazil and India).

Okafor and Eze (2023) conducted an assessment of the current approach to taxation, revenue allocation and fiscal federalism in Nigeria using time series data (1999–2021) and Ordinary Least Squares (OLS) estimation. They found that the current revenue-sharing formula has caused increasing regional disparities across Nigeria and is the cause of

current ongoing conflicts over resource control in Nigeria. They specifically recommend that the derivation principle be increased to at least 50 percent and the administration of VAT should be devolved to the states.

Philip (2023) performed a comprehensive empirical study on the practice of fiscal federalism in Nigeria (2010–2022), using descriptive statistics and a content analysis of policymakers' documents as the two main methods of analysis. The research found that over seventy percent of Nigeria's thirty-six states rely primarily on transfers from the federal government to fund upwards of seventy-five percent of their budgets. The result is rampant fiscal indiscipline, an inadequate number of ongoing projects, and declining service delivery.

Abada, Omeh, Ovaga, and Ugwuanyi (2022) examined how fiscal federalism relates to national development issues in Nigeria by using a combination of primary data (1,200 respondents) and secondary data. Based on their structural equation modelling, they found that the perception of inequitable revenue allocation is the variable most highly correlated to demand for restructuring and secessionist sentiment across Nigeria's geographical zones.

Ewetan and Uranta (2020) researched the problems and challenges of fiscal federalism in Nigeria using data from a political-economy perspective and panel data for the period 2007-2018. Results from both fixed and random-effects models were used to indicate that there is considerable political interference regarding the allocation of funds from the Federal Accounts Allocation Committee (FAAC) and the joint-state/local government accounts system. This interference has severely undermined autonomy for local governments and development at the grassroots level.

Akindele and Olaopa (2020) performed an analysis of politics associated with revenue allocation and the political economy of fiscal federalism in Nigeria. Their research was based on historical data compiled from several Revenue Commissions operating between 1958 and 2019. They concluded that the declining use of the derivation principle from 50% in 1960 to 13% currently has entrenched rentier politics and has contributed to the lack of economic diversification by the states.

Arowolo and Aluko (2020) employed descriptive and historical analyses of the development and execution of the concept of fiscal federalism within Nigeria. The analysis conducted at the state level indicates that the mechanism by which VAT and Company Income Tax are collected at the Federal level and subsequently redistributed to the states creates extreme horizontal inequities among states due to the concentration of non-oil revenues in Lagos, a state that collects over 50% of Nigeria's non-oil tax revenue yet is allocated less than 10% of the redistributed VAT and Company Tax by the Federal Government.

Table 1: Summary of Empirical Review

S/N	Author(s) & Year	Title/Focus	Key Findings
1	Otinche & Aliyu (2025)	Fiscal federalism, statutory allocation and economic growth in Nigeria	Federal allocations → positive effect on GDP; state & local allocations → negative/insignificant due to mismanagement
2	Ojinnaka, Onyeka, Nwaguru, & Anukam (2025)	Fiscal federalism and economic development in Nigeria: An econometric analysis	Revenue decentralisation raises GDP per capita by ~0.66%; expenditure decentralisation also positive and significant
3	Ochinyabo (2024)	Effective governance and economic development issues in Nigeria's fiscal federalism	States with higher IGR show significantly better HDI & infrastructure; FAAC dependence → poor governance
4	Usman & Abdullahi (2024)	A comparative study of vertical and horizontal revenue allocation: Nigeria, Brazil & India	Nigeria has the highest vertical imbalance (~56% to centre) → 10–12% growth penalty compared to peers

5	Okafor & Eze (2023)	Taxation, revenue allocation and fiscal federalism in Nigeria: A critical appraisal	Current formula widens regional inequality; fuels resource control agitations
6	Philip, (2023)	Fiscal federalism in Nigeria: Empirical review	>70% of states depend on federal transfers for >75% of budget → fiscal indiscipline & project abandonment
7	Abada, Omeh, Ovaga & Ugwuanyi (2022)	Fiscal federalism and challenges of national development in Nigeria	Perceived inequity in revenue allocation is strongest predictor of restructuring/secessionist demands
8	Ewetan & Uranta (2020)	Fiscal federalism in Nigeria: An analysis of issues and challenges	Political interference in FAAC and joint account system severely undermine local autonomy
9	Akindele & Olaopa (2020)	Revenue allocation in Nigeria: Challenges and prospects	Continuous reduction of derivation from 50% (1960) to 13% entrenched rentier politics
10	Arowolo & Aluko (2020)	Fiscal federalism in Nigeria: Theory and dimensions	Lagos generates >50% of non-oil revenue but receives <10% back → severe horizontal imbalance

Source: Author's Compilation, 2025

3.0 Empirical Gap

The majority of the empirical literature has contributed significantly to quantitative evidence of the fiscal imbalances and growth effects in Nigeria and the Nigerian economy; however, the majority of existing studies are still based upon econometric aggregate results, or studies that are descriptive or historical in nature. Currently, there is also a noticeable lack of integrative studies that present or combine the latest quantitative findings with extensive qualitative accounts from the political elite, senior bureaucratic officials, and practitioners of policy.

This present study seeks to alleviate this gap in research by both triangulating the most current econometric evidence with twenty (20) structured interviews conducted with elite participants across selected states in Nigeria. Furthermore, the present study provided a more thorough examination of whether or not Nigeria truly implements federalism or merely maintains a centralized system under federalism.

3.1 Theoretical Framework

This study is anchored on **Classical Federalism**, **Fiscal Federalism**, and the **Political Economy of Federalism theories**. The integration of these theoretical perspectives provides a robust analytical lens for interrogating the nature, functioning, and contradictions of Nigeria's federal arrangement, particularly in relation to power distribution, fiscal relations, and revenue allocation.

3.2 Classical Federalism Theory

The Classical Federalism Theory was developed by various scholars including Kenneth Wheare and those who have contributed to comparative federalism over time. According to this theory, federalism is a form of government in which power is constitutionally divided between the federal government and other entities, which are both autonomous from one another and work together to provide a framework for governance. As such, a governmental system may only be classified as a true federal system if the powers of all three (or more) levels of government are clearly identified, constitutionally guaranteed, and their boundaries established and protected from unilaterally being changed by any one of the levels of government (Wheare, 1963 cited in Arowolo & Aluko, 2020).

When applied to Nigeria, the Classical Federalism Theory serves as a normative standard that provides a basis for evaluating the Nigerian constitutional setup and institutional framework as compared to the classical federal principles. Although Nigeria is described by its constitution as a federation, there are those who argue that the concentration of legislative, financial and operational power at the federal level contradicts what is necessary according to the theory for a federal system to operate correctly (Otinche and Aliyu, 2025). In this sense, Nigeria's federal problem does not lie in the absence of federal institutions but rather in the loss of the autonomy of the individual states caused by an over-concentration of power at the federating/capital level, thus raising questions about the actual existence of true federal systems within Nigeria.

3.3 Fiscal Federalism Theory

The focus of Fiscal Federalism Theory, which has been developed by Oates and other scholars, is the most efficient distribution of taxing powers and expenditure responsibilities between different levels of government, and the most effective way of making inter-governmental transfers of revenues and expenditures. It posits that the decentralization of government will lead to increases in efficiency and accountability because local governments will be able to provide a greater number of public goods that reflect the preferences of their citizens than the central government can; thus, local government should take on the role of providing these services whenever possible, while the central government remains responsible for stabilization and redistribution (Oates, 2019 cited in Fidelis, 2024).

Fiscal Federalism Theory has particular relevance to Nigeria's federal system of government, as it explains the contradictions of the fiscal system. For instance, state and local governments have been given significant responsibilities for expenditures; however, they have no authority to generate their own revenue (World Bank, 2021). This vertical fiscal imbalance affects the fiscal responsibility of state and local governments as well as service delivery and accountability within the federal system. An additional problem is that the central government in Nigeria has created an environment in which it is highly dependent on oil revenue; this dependence creates further incentives for rent-seeking behavior, which may reduce incentives for generating internal revenues (Arowolo and Aluko, 2020). Overall, the utility of fiscal federalism theory is that it can provide insight into how revenue allocation in Nigeria leads to poor governance and subnational dependency.

3.4 Political Economy of Federalism

Classical and fiscal theories have been complemented by the Political Economy of Federalism, which gives prominence to power relations and elite interests as well as historical forces which define the nature of the federal arrangement. In this view, federalism does not represent simply a constitutional design, but rather is the result of negotiations between political actors, pressures generated through economic competition between groups, and political struggle by groups to create and control natural and physical resources. The perspective identifies how dominant groups may hijack federalism for their benefit by exploiting federal institutions for power consolidation and control of key resources in the economy (Usman and Abdullahi, 2024).

Within the context of Nigeria, the political economy perspective helps explain the ongoing opposition to reform efforts towards establishing a true federal system. The central state's ability to control oil revenues, make federal appointments, and manage fiscal resources from the centre creates an advantage for elites competing with one another, thereby discouraging genuine devolution of authority and power to the states and local governments. This perspective also provides insight into the politicization of resource allocation, the continuing nature of ethnic and regional agitations, and the unwillingness to adopt structural reforms even though there is a widespread consensus regarding the necessity for restructuring.

3.5 Triangulating/Relevance of the Frameworks to the Study

The combined use of Classical Federalism Theory, Fiscal Federalism Theory, and Political Economy of Federalism provides a multidimensional framework for this study. While Classical Federalism establishes the normative standards of a federal system, Fiscal Federalism explains the functional consequences of fiscal arrangements, and Political

Economy of Federalism accounts for the power dynamics and interests that sustain Nigeria's centralized federal practice. Together, these frameworks enable a comprehensive interrogation of whether Nigeria's federal system approximates true federalism or represents a centralized system operating under federal nomenclature.

4.0 Methodology

Research Design & Sources of Data: The qualitative research methodology was utilized in this research to explore Nigeria's federal structure in relation to the characteristics of genuine federalism. The qualitative method was determined to be appropriate because the objective of the research was exploratory and interpretive and thus analyzed the practice of the Constitution, fiscal Relations, and Governance dynamics rather than providing causal relationships. Data for the research were obtained from both primary and secondary resource materials, which enabled triangulation of the data.

Instrument/Method of Data Collection: Primary data were collected by conducting semi-structured elite interviews in accordance with an Interview Guide that was developed based on major themes including: Devolution of Power, Fiscal Federalism, Intergovernmental Relation, and Governance Outcomes. Secondary data were obtained from the Constitution of the Federal Republic of Nigeria as Amended in 1999, the various Official Government Documents, the various Reports produced through the Constitutional Conferences, as well as the vast amount of research conducted in various Academic Journals, Textbooks and Policy Briefs related to the issue.

Sample Size & Sampling Procedure: For the purpose of this research, the participants were selected purposively and were made up of a total of twenty (20) individuals from the fields of Political Science, Constitutional Law, Senior Public Servants and Policy Makers, and Civil Society Organizations across Abuja (Federal Capital Territory), Lagos, Rivers and Anambra States who demonstrated expertise in the issues being studied. The interviews were conducted both face to face and by means of online conduits and were recorded with the use of a digital recording device and subsequently transcribed word for word.

Method of Data Presentation and Analysis: The thematic content analysis or coding strategy was used by the researcher to analyze and categorize interview transcripts and documentary materials and to identify recurrent themes and thematic analysis.

Findings were interpreted within classical and contemporary theories of federalism to enhance theoretical rigor. Ethical considerations, including anonymity, confidentiality, and voluntary participation, were strictly observed throughout the study.

5.0 Results and Discussion of Findings

In the context of the current study, the authors explored whether Nigeria's Constitution provides an adequate basis for the concept of "true" federalism. Alternatively, they investigated whether Nigeria's system is more similar to a unitary state than federalism. Research methods included reviews of documents, studies published previously and the results of interviews conducted with 20 key opinion leaders including Constitutional Law experts, Political Scientists, Senior Government Officials, Policymakers, and members of Civil Society. The results of their analysis yielded six (6) key findings. Each of the findings is supported by documentary and prior empirical research and further corroborated by common themes found from interviews conducted.

5.1 Nigeria's System of Centralization is Structural Rather than an Isolated Incident

Documentary and empirical evidence converge to support one conclusion that Nigeria's current practice of federalism has a very strong current of political and fiscal centralization (Philip, 2025). Findings from interviews indicated that centralization is systemic rather than episodic. Centralization has been defined in terms of centration of political power

and control over major revenue sources, control and direction of the security/defense forces, control/appointments of major civilian "safety nets," and the promotion of top-down policy implementation.

In the likelihood of real-life examples of the centralization of political and fiscal authority, one senior public servant paraphrased that, while Nigeria has a title of federation, its daily practice of fiscal and administrative functioning presents evidence of subnational units "having responsibilities but not means" to perform the functions assigned. The conclusion of these comments supports the claim that although Nigeria is a federal system, it operates at a high level of centralization.

Therefore, durable reform must address institutional incentive structures, not only amend constitutional texts.

5.2 Pronounced vertical and horizontal fiscal imbalances (VFI & HFI)

The research identified extreme vertical fiscal imbalance (VFI) due to the large expenditure responsibilities of S&LGs; however, they have little or no associated revenue-raising ability as confirmed by World Bank diagnostics (Ojinnaka, et al., 2025; Nwaguru, 2025). Interviews with respondents also identified two major causes of VFI: (a) central collection of oil rents and large taxes, and (b) politically constructed unpredictable transfers. A finance director for one state indicated (anonymised paraphrase) that "FAAC receipts are the sole determining factor in every aspect" which affect staffing, capital projects and wages. This can be seen clearly as suggesting a high level of dependence by S&LGs on transfers from the Federal Government.

Responses from interviewees also indicated horizontal disparities among income levels of states. Respondents from relatively poorer states cited chronic inability to supply the same levels of service to citizens residing in higher income states, owing to differences in revenue bases and lack of equivalency. Several policy analysts cautioned that without adequate equalization mechanisms, fiscal decentralisation will aggravate rather than diminish disparities between S&LGs.

Succinctly, while fiscal transfer reforms are essential to making fiscal decentralisation meaningful (e.g. increased predictability, formula-based allocations, and better equalisation), they alone will not achieve this; devolution of tax instruments and the building of capacity of S&LGs' national and regional institutions are crucial.

5.3 Politicization and opacity of revenue allocation undermine legitimacy

Interviewees expressed that the perception of political influence over allocations of revenue and emergency bailouts is a continuing theme. Respondents including, former intergovernmental committee members and civil society monitors have stated that the ad hoc nature of allocations and interventions creates distrust. A civil-society audit group respondent noted that allocation fora tend to be "more political than technical," leading to diminished trust in intergovernmental mechanisms. This aligns with existing literature suggesting that opaque allocation practices result in calls for restructuring and control over resources (Okafor and Eze, 2023). The establishment of transparency, including public rules and published formulas with the support of independent fiscal councils, will be an important prerequisite to develop political consensus on more extensive reform.

5.4 Institutional capacity conditions decentralisation outcomes

Interview evidence strongly supports the proposition that decentralisation only improves outcomes where subnational capacity exists. Officials from high-performing states described investments in tax administration, public financial management (PFM), procurement and revenue diversification that allowed those states to cushion shocks and maintain core services. By contrast, respondents from weaker states described acute managerial deficits that would be exacerbated by poorly sequenced devolution. This mirrors empirical findings that internally generated revenue (IGR) strength correlates with better service delivery (Ogunnubi, 2022).

Hence, reform must be sequenced: fiscal powers should be devolved alongside capacity development (tax administration, financial controls, and audit functions).

5.5 Elite incentives explain resistance to genuine devolution

Interviews conducted during this study included evidence for the political-economy perspective that elite groups often pursue political objectives through their governance structures and processes by ensuring that they are able to maintain the same level of rents/patronage and control over the disbursement of financial resources as long as possible. One former federal officer interviewed stated that "having the centre maintain its power is also a way of giving that centre of power an edge in terms of political power; thus, if someone gives up that central position, they are giving up power and lost competitive advantage." The way in which Otinche and Aliyu (2025) characterised elite fragmentation and rent politics was reflected in the opinions of most interviewees. Consequently, the results of the interviews strengthen the belief that the transformation of a government from the current structure to a new structural design would involve the same amount of redistribution of political power as it would the redesigning of fiscal architecture on a technical basis.

Thus, in order to implement successful reform initiatives, they must incorporate political astuteness; scalable packages, payments, time-based transfer systems, and guaranteed legal protections may be necessary in order to alter the rewards received by elites.

5.6 Convergent policy preferences but divergent views on sequencing and scope

Participants in our interviews identified broadly similar sets of practical measures as necessary reform: (1) constitutional clarification of functional responsibilities; (2) deeper fiscal decentralisation (this includes devolving some revenue-collecting powers or utilising improved formula-derived or equalised revenue-sharing); (3) the transfer of funds through formula, transparent processes; (4) a body to oversee the fiscal system and its changes independently; and (5) ongoing capacity-building efforts. Where they began to diverge in their answers, was regarding the timing and extent to which these were to be enacted. Some believed that amending the Constitution to confer autonomy on sub-national governments should be enacted immediately, whereas others argued that an incremental, reversible approach (including piloting or threshold capacity-building programmes and performance-based transfers) may better prevent the disruption of service delivery that follows poorly sequenced devolution reforms. Across academic, financial administrative and civil-society sectors, participants agreed that poorly sequenced and unplanned devolution could result in sub-optimal service delivery (and in the case of devolution from weak or developing governments, may cause humanitarian crises), thus re-enforcing theoretical literature's caution regarding the possible risks of devolution in emerging or unstable states.

Therefore, it is clear that, in order to be consistent with both the urgent norm for devolution and the prudent requirement to protect service delivery, policymakers must reconcile the two through a sequence of pilot programmes or phased-in legal transfers, so as to mitigate the risk associated with devolution.

5.7 Connecting interviews to theory and empirical literature

The documentary and empirical record are complemented by the interviews because they provide a human element to the evidence collected. The theory of classical federalism, which emphasises the need for constitutional guarantees of autonomy, shows through the interviewees' demand for a better definition of functional responsibilities, while the theory of fiscal federalism highlights the fiscal imbalance (VFI) and the inequality issues through the struggle of officials to cope with their dependence on central government funding. The perspective of political economy complements the theory of federalism and fiscal federalism through the admission of insiders that political influence has limited the potential of federalism to effect change through their support for both rent control and 'elite incentive' programs.

Thus, the theories employed in this research support and provide insight into Nigeria's federalisation dilemmas. To summarise; using a combination of documentary sources, literature, and elite interviews, the research identifies Nigeria's challenge of federalism as being fundamentally tied to institutional and political factors; although it appears that Nigeria has federalism on paper, the institution has created a centralised form of federalism through the use of institutional design, fiscal instruments, and elite incentives. Interview evidence supports the understanding of Nigeria's

problems with respect to fiscal policy in terms of creating a centralised power structure and the degree to which political bargaining and fiscal capacity encourage the continuation of the status quo.

Therefore, in order to achieve 'true federalism' in Nigeria, the need for a comprehensive approach to reform, including but not limited to, amending the constitution as needed, redesigning fiscal instruments, building administrative capacity, and creating strategies that will provide for political credibility to change elite incentives and public trust.

Table 2: Presentation of Summary of Findings

<i>S/N</i>	<i>Finding</i>	<i>Description</i>	<i>Supporting Evidence</i>	<i>Implication</i>
1	Structural Centralization	Nigeria's federalism exhibits strong political and fiscal centralization, operating more like a unitary system in practice despite its federal constitution.	Documentary evidence (e.g., 1999 Constitution), empirical studies (Philip, 2023; World Bank, 2023), and interviews highlighting control over revenue, security, and policy implementation. Senior officials noted subnational units have responsibilities without adequate means.	Reforms must target institutional incentives beyond mere constitutional amendments to achieve durable change.
2	Vertical and Horizontal Fiscal Imbalances (VFI & HFI)	Extreme VFI due to subnational governments' high expenditure responsibilities with limited revenue-raising powers; HFI creates disparities among states.	World Bank diagnostics (Ojinnaka et al., 2025; Nwaguru, 2025); interviews citing central collection of oil rents and unpredictable transfers. Finance directors emphasized dependence on FAAC receipts.	Fiscal transfers need reform for predictability and equalization; devolution of tax instruments and capacity-building are essential to make decentralization meaningful.
3	Politicization and Opacity of Revenue Allocation	Perceptions of political influence over allocations and bailouts erode trust in intergovernmental mechanisms.	Interviews with former committee members and civil society monitors; literature on opaque practices leading to restructuring demands (Okafor & Eze, 2023).	Establish transparency via public rules, published formulas, and independent fiscal councils to build consensus for broader reforms.
4	Institutional Capacity Conditions Decentralization Outcomes	Decentralization improves outcomes only where subnational capacity exists; weaker states face managerial deficits.	Interviews from high-performing states on investments in tax administration and PFM; empirical	Sequence reforms: devolve fiscal powers alongside capacity development in

			correlations between IGR strength and service delivery (World Bank, 2023; Ogunnubi, 2022).	tax administration, financial controls, and audits.
5	Elite Incentives Explain Resistance to Devolution	Elites resist change to maintain rents, patronage, and political control through centralized structures.	Interviews with former federal officers; political-economy perspectives (Otinche & Aliyu, 2025) on elite fragmentation and rent politics.	Successful reforms require political astuteness, including scalable packages, time-based transfers, and legal protections to alter elite rewards.
6	Convergent Policy Preferences but Divergent Views on Sequencing	Broad agreement on reforms like constitutional clarification, fiscal decentralization, transparent transfers, oversight bodies, and capacity-building; divergence on timing and scope.	Elite interviews showing support for immediate autonomy vs. incremental approaches; warnings on risks of poorly sequenced devolution.	Reconcile urgency with prudence through phased pilots or legal transfers to mitigate service disruptions and humanitarian risks.

6.0 Conclusion and Recommendations

6.1 Conclusion

This study has found that, although Nigeria is constitutionally a federation, the federal system in practice operates as a very centralized system, and is not consistent with the notion of 'genuine federalism'. The centralised concentration of political and fiscal power has contributed to the dependency of sub-national units on the federal government, created more regional inequalities, allowed for the politicisation of revenue-sharing and to fuel political and ethnic unrest, thereby affecting governance, unity and stability within the country. The analysis has drawn on classical federalism, fiscal federalism and theories of political economy, using a combination of documentary evidence, empirical literature and elite interviews to demonstrate that the crisis is more institutional and operational in nature, and less conceptual. Nigeria has a significant risk of increased governance failures and instability, if meaningful reform and devolution of power is not introduced, or fiscal autonomy enhanced and elite incentive addressed. To maintain a sustainable federation, a balanced approach to restructuring, as well as ensuring equity, accountability and intergovernmental collaboration in order to create an environment conducive to inclusive development and unity in diversity, must be taken into consideration.

6.2 Recommendations

To establish true and functional federalism in Nigeria, this research identifies and makes six key recommendations to achieve this goal.

The first recommendation involves a substantial revision of the amended 1999 Constitution, using an inclusive approach and creating a real devolution of powers. This means that key items on the Exclusive Legislative List, including policing, prisons systems, electricity, and some aspects of education and health systems, should be moved from the Exclusive Legislative List to the Concurrent List or be assigned directly to individual states, thereby re-establishing autonomy for the states while simultaneously maintaining vital national cohesion.

Secondly, fiscal federalism will significantly strengthen fiscal responsibility and economic diversification amongst the various levels of governments by creating both tax revenue and local revenue sources through decentralization of extensive taxation streams (particularly: Value Added Taxes (VAT), Personal Income Taxes (PIT), and Corporate Taxes (CT)) and increasing the Derivation Principle to a minimum level of 50% for natural resources.

Thirdly, the revenue allocation processes must be removed from politics and have greater transparency by establishing an Independent National Fiscal Commission/Council that has complete statutory powers to develop, monitor and enforce a revenue sharing mechanism that is formulaic in nature and is publicly disclosed.

Fourthly, in addition, any transfer of authority must also include systematic capacity-building initiatives for states and local governments. Federal and international partners should provide support for long-term programmes in areas such as tax administration, public financial management, budgeting, procurement, auditing, and digital governance so that sub-national entities will be able to properly administer their new responsibilities without sacrificing the quality of government services provided to citizens of those areas.

Fifthly, intergovernmental institutions must also be revitalised and strengthened. The reformed and empowered National Council of State should serve as one of the primary places for dialogue between all three levels of government, while at the same time, should provide regular opportunities for intergovernmental fiscal and policy summits. These summits should be held regularly to provide opportunities for all three tiers of government to engage in dialogue, work together to solve problems, and establish relationships built on mutual trust.

Finally, the entire reform process will require a significant degree of political inclusivity and strategic planning. In order for reform to take place successfully, a broad time-limited national conference or constituent process must be convened to gather input from politicians, community leaders, civil society stakeholders, women, youth, and ethnic groups on the content, sequencing, and transitional arrangements for restructuring, as well as providing credible compensation and trust-building measures that will address the concerns of those who may lose from the reforms, as well as those who are currently skeptical about proposals for permanent change.

Implementing these interconnected reforms in a deliberate, sequenced, and inclusive manner offers the most viable path to resolving Nigeria's long-standing federalist question and establishing a balanced, equitable, and sustainable federation. Put differently, by adopting these six recommendations, as well as the implementation of fiscal policies as they relate to taxation, it can be possible for Nigeria to achieve total federalism.

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