

Fiscal Restructuring and Federal Structural Development In Nigeria Under President Bola Ahmed Tinubu

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Abstract: *This study examines how fiscal restructuring under President Bola Ahmed Tinubu has affected Nigeria's federal system, with particular attention to petrol-subsidy removal, the tax reform programme initiated in 2024 and enacted in 2025, revenue allocation, subnational fiscal autonomy, and equitable development. Anchored in fiscal federalism, the political economy of federalism, and New Institutional Economics, the study adopts an interpretivist qualitative documentary-analysis design. Purposively selected policy documents, fiscal reports, legislation, institutional assessments, and peer-reviewed studies covering May 2023 to March 2026 were analysed thematically. The findings show that the reforms increased nominal fiscal resources available through the Federation Account, strengthened incentives for domestic revenue mobilisation, and produced a more coherent tax-administration architecture. However, these gains have not amounted to full fiscal decentralisation. States and local governments remain structurally dependent on federally collected revenue; inflation and exchange-rate adjustment weakened the real value of higher transfers; and distributive disputes over Value Added Tax, derivation, and allocation criteria continue to shape intergovernmental relations. The July 2024 Supreme Court decision on local government financial autonomy widened the formal scope for grassroots fiscal accountability, but implementation remains institutionally contested. Overall, fiscal restructuring has generated significant but ambivalent consequences: its federal effects depend on constitutional rules, subnational institutional capacity, distributional politics, and the macroeconomic environment. The paper recommends constitutional and revenue-allocation reform, an explicit equalisation mechanism, stronger subnational internally generated revenue and public financial management, credible implementation of local government autonomy, and better-targeted social protection.*

Keywords: fiscal restructuring; fiscal federalism; revenue allocation; subnational autonomy; tax reform; Development

Introduction

Nigeria's federal system was designed to accommodate territorial diversity while distributing governmental authority among federal, state, and local institutions. In practice, however, the fiscal side of the federation has become highly centralised. Major revenue sources are collected or controlled at the centre and subsequently distributed through the Federation Account, while state and local governments carry substantial responsibilities for education, health, infrastructure, and local service delivery. This mismatch between revenue authority and expenditure responsibility has generated persistent vertical fiscal imbalance, strong dependence on statutory transfers, and recurring political disputes over derivation, Value Added Tax (VAT), and the revenue-allocation formula (Adesopo & Apeloko, 2025; Ogunwa & Abasilim, 2024).

The administration of President Bola Ahmed Tinubu, inaugurated on 29 May 2023, entered office in the middle of these long-standing tensions and immediately initiated a major fiscal adjustment. The removal of the petrol subsidy, announced at inauguration and progressively implemented thereafter, sought to eliminate a costly fiscal distortion and redirect public resources. The administration also pursued exchange-rate and revenue reforms and, from 2024, a comprehensive restructuring of the tax system. International assessments acknowledge that the reform package improved macroeconomic stability, revenue mobilisation, and fiscal resilience, but they also emphasise that poverty, food insecurity, and cost-of-living pressures increased during the adjustment period (International Monetary Fund, 2024, 2025; World Bank, 2025).

The central federalism question is therefore not whether reform was fiscally necessary, but how the design and distribution of reform costs and benefits have altered relations among Nigeria's tiers of government. A reform may improve aggregate public finances while leaving the underlying allocation of taxing powers unchanged. It may raise nominal transfers to states while inflation erodes their real purchasing power. It may simplify national tax administration while creating new controversies over the territorial distribution of VAT. It may also strengthen the legal autonomy of local governments without automatically producing administrative

capacity or accountable local governance. These distinctions are essential because fiscal restructuring and fiscal decentralisation are related but not synonymous.

This paper evaluates the impact of fiscal restructuring on federal structural development in Nigeria under President Tinubu. It retains four objectives from the underlying study: to analyse the major fiscal policies introduced by the administration and their implications for Nigeria's federal structure; assess their effects on revenue allocation and the fiscal autonomy of state and local governments; examine the challenges and opportunities of reform implementation within Nigeria's federal framework; and explore the relationship between fiscal restructuring and equitable development across subnational governments. The study addresses the corresponding question of whether the current reform agenda is moving Nigeria toward a more balanced, accountable, and development-oriented fiscal federation or merely improving federal fiscal management within an essentially centralised structure.

The paper makes two contributions. First, it integrates three analytical traditions that are often treated separately in Nigerian fiscal-federalism scholarship: the efficiency logic of fiscal federalism, the distributional logic of political economy, and the institutional logic of path dependence and credible commitment. Second, it examines the reform programme as an interacting package rather than as isolated policies. This is important because subsidy removal, tax reform, revenue sharing, local government autonomy, and subnational revenue mobilisation jointly shape the incentives and capacities of Nigeria's federal units.

Literature Review and Conceptual Clarifications

Fiscal federalism and fiscal restructuring

Fiscal federalism concerns the assignment of taxation, expenditure, borrowing, and intergovernmental transfers among levels of government. Classical theory distinguishes functions that benefit from central coordination, particularly macroeconomic stabilisation and redistribution, from the provision of local public goods, for which lower levels of government may possess superior information about citizen preferences (Oates, 1972). Oates' decentralisation theorem holds that, where preferences differ across jurisdictions and there are no compelling economies of scale or spillovers, decentralised provision can produce welfare gains by matching public services more closely to local needs. Tiebout's (1956) earlier model similarly emphasised jurisdictional choice, although its strong assumptions about mobility and information limit direct application in developing federations.

Second-generation fiscal federalism shifts attention from the assignment of functions to the incentives created by institutions. Fiscal autonomy can improve accountability only when subnational governments face credible budget constraints, possess meaningful own-source revenues, and bear a recognisable relationship between the taxes they raise and services they provide (Oates, 2005; Qian & Weingast, 1997; Weingast, 1995). Excessive reliance on transfers can weaken this connection and encourage soft-budget expectations, while poorly designed decentralisation can reproduce corruption or inequality at lower levels (Prud'homme, 1995).

Fiscal restructuring is broader than decentralisation. It includes deliberate changes to revenue mobilisation, tax administration, subsidies, public expenditure, debt management, intergovernmental transfers, and the institutions governing fiscal decisions. A reform can therefore be fiscally transformative without shifting constitutional taxing authority downward. This distinction is particularly important in Nigeria, where the federal government can improve national revenue collection and increase transfers while states remain dependent on centrally collected taxes. The relevant analytical issue is the extent to which restructuring changes both resources and decision-making autonomy across tiers of government.

Intergovernmental fiscal relations and revenue allocation

Intergovernmental fiscal relations encompass revenue assignment, expenditure assignment, statutory transfers, grants, and the institutions through which governments negotiate fiscal obligations. Nigeria's framework is anchored in the 1999 Constitution, the Federation Account, the Federation Account Allocation Committee (FAAC), and the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC). The persistence of a federally dominant revenue structure reflects both constitutional design and the historical centralisation associated with military rule and the political economy of petroleum revenue (Federal Republic of Nigeria, 1999; Ogunwa & Abasilim, 2024).

The allocation system must address both vertical and horizontal imbalances. Vertical imbalance arises when lower tiers carry expenditure responsibilities that exceed their own-source revenue powers. Horizontal imbalance arises because the economic and taxable capacity of states differs sharply. A formula that treats states equally can protect territorial inclusion but may under-reward revenue effort; a derivation-oriented formula can strengthen accountability and incentives but widen disparities between high- and low-capacity jurisdictions. These competing objectives explain why reform of Nigeria's revenue-allocation formula is politically difficult. RMAFC itself formally reopened review of the formula in 2025, acknowledging that the existing arrangement no longer fully reflects current fiscal responsibilities and socioeconomic realities (Revenue Mobilisation Allocation and Fiscal Commission [RMAFC], 2025a).

Recent scholarship continues to associate Nigeria's fiscal centralisation with weak subnational autonomy and uneven development. Ogunwa and Abasilim (2024) trace the historical erosion of federal balance to centralising changes that reduced the practical autonomy of subnational units. Adesopo and Apeloko (2025) similarly argue that exclusionary features of revenue control and distribution intensify regional disparities and governance tensions. The literature therefore suggests that the quality of fiscal federalism depends not simply on the amount shared through FAAC, but on the combination of own-source revenue authority, transparent transfer rules, fiscal equalisation, administrative capacity, and political accountability.

Historical and comparative context

Nigeria's present fiscal structure is partly a product of historical path dependence. The regional arrangements of the late colonial and early post-independence periods gave subnational governments a stronger relationship with regionally generated revenues. Successive military governments subsequently centralised major taxing and resource powers as petroleum became the dominant source of public revenue. This strengthened the distributive role of the centre and weakened the tax-accountability relationship at state level. Contemporary reform therefore operates on an institutional foundation in which states have long adjusted their budgets and political expectations around transfers from the Federation Account (North, 1990; Ogunwa & Abasilim, 2024).

Comparative federal experience suggests that neither centralisation nor decentralisation is inherently superior. What matters is the design of assignments, transfer systems, borrowing rules, equalisation, and accountability. Federations such as India, Brazil, and South Africa combine nationally coordinated redistribution with constitutionally protected subnational functions and formal mechanisms for intergovernmental negotiation. Their experience supports a central lesson for Nigeria: reform must be sequenced and institutionally credible. Expanding subnational discretion without administrative capacity can create fiscal risk, while retaining excessive central control can weaken accountability and regional initiative. Nigeria's reform challenge is therefore to create a workable balance between national solidarity and meaningful subnational responsibility rather than to pursue decentralisation as an end in itself (Oates, 2005; Rodden, 2006).

Theoretical Framework

The study is anchored in three complementary frameworks. The primary framework is Oates' theory of fiscal federalism. It provides a normative benchmark for assessing whether fiscal resources are aligned with expenditure responsibilities and whether subnational governments possess sufficient autonomy to respond to local preferences (Oates, 1972, 2005). From this perspective, the key test of Tinubu-era reforms is not merely whether government revenue has increased, but whether the reforms improve the correspondence between responsibility, resources, and accountability across tiers.

The political economy of federalism provides the second lens. Federal fiscal arrangements are bargaining outcomes that create identifiable winners and losers. Riker (1964) emphasised federalism as a political bargain, while later work has shown how intergovernmental transfers, borrowing rules, and regional coalitions influence the durability of federal arrangements (Rodden, 2006). In Nigeria, disputes over derivation, VAT, population, economic activity, and resource control cannot be treated as technical disagreements alone; they are distributional conflicts embedded in regional and political interests.

New Institutional Economics (NIE) provides the third lens. North (1990) emphasises path dependence and the influence of formal and informal rules; Williamson (1985) highlights transaction and coordination costs; and Ostrom (1990) demonstrates that collective-resource problems can be managed through credible rules, monitoring, and accountability rather than through simple centralisation. Applied to Nigeria, NIE helps explain why formal policy change may fail to produce behavioural change when administrative capacity is weak, political actors expect reversal, enforcement is selective, or institutional incentives remain unchanged. Together, the three frameworks permit analysis of efficiency, distribution, and institutional durability within a single interpretive structure.

Methodology

The study adopts an interpretivist qualitative research design and uses documentary analysis as its principal method. Documentary analysis is appropriate where the research problem concerns policy design, institutional change, fiscal decisions, and the interpretation of official records rather than individual attitudes. It enables systematic evaluation of documents as evidence while requiring attention to authorship, purpose, credibility, context, and corroboration (Bowen, 2009).

The temporal scope is May 2023 to March 2026. Documentary sources were selected purposively on the basis of relevance, authority, currency, and credibility. The corpus comprised federal policy and legislative documents; FAAC and RMAFC releases; fiscal and macroeconomic assessments by the International Monetary Fund and World Bank; the 1999 Constitution and relevant judicial material; and peer-reviewed scholarship on Nigerian fiscal federalism, subsidy reform, tax administration, and decentralisation. Particular attention was given to three policy domains retained from the original study: petrol-subsidy removal, the 2024-2025 tax reform programme, and revenue diversification/IGR enhancement. The national analysis also considered differences between oil-producing and non-oil-producing states and between states with stronger and weaker own-source revenue capacity.

Data were organised through a structured document-review protocol and analysed using thematic content analysis. Coding followed the four research objectives: policy change and federal structure; revenue allocation and fiscal autonomy; implementation challenges and opportunities; and equitable development. Themes were then interpreted through the three theoretical lenses described above. Thematic analysis was used flexibly to identify recurring patterns while preserving the institutional and political context of the documents (Braun & Clarke, 2006). Credibility was strengthened through source triangulation, especially where official claims about reform gains were assessed alongside independent institutional reports and academic studies. Because the study is documentary, it makes no causal claim that can only be established through state-level econometric or experimental evidence; its conclusions are interpretive and institutional.

Findings and Discussion

Fiscal restructuring policies and Nigeria's federal structure

Three policy pillars define the fiscal restructuring agenda. The first is petrol-subsidy removal. The reform reduced a major federal expenditure burden and altered the flow of resources into the Federation Account. FAAC data illustrate the scale of the

nominal increase in distributable revenue during the reform period: N1.424 trillion of December 2024 revenue was shared in January 2025, while N1.818 trillion of June 2025 revenue was shared in July 2025 (Office of the Accountant-General of the Federation [OAGF], 2025a, 2025b). These figures should not be read as a simple before-and-after causal estimate, because monthly oil receipts, exchange-rate effects, VAT collections, deductions, and other components also changed. They nevertheless show that the post-subsidy fiscal environment produced substantially larger nominal pools for intergovernmental distribution.

The federalism effect of subsidy removal is therefore ambivalent. On one hand, larger transfers expand the budget space of states and local governments and reduce the extent to which a federal subsidy absorbs revenues that would otherwise enter the distributable pool. On the other hand, higher fuel prices increased transport and production costs, contributing to inflation and weakening household welfare. Empirical work on Nigeria's 2023 subsidy removal identifies strong inflationary and macroeconomic transmission effects (Aniemeke, 2024), while the IMF and World Bank report that reform gains coexisted with high poverty, food insecurity, and pressure on living standards (International Monetary Fund, 2025; World Bank, 2025). In real terms, therefore, the benefit of larger statutory allocations was partly offset by higher costs of public service delivery and social protection.

The second pillar is tax reform. The original 2024 proposals had generated intense debate because tax harmonisation and VAT distribution directly affect intergovernmental incentives. By June 2025, the four reform bills had been enacted as the Nigeria Tax Act, the Nigeria Tax Administration Act, the Nigeria Revenue Service (Establishment) Act, and the Joint Revenue Board (Establishment) Act. The new framework became operational in phases, with major provisions commencing on 1 January 2026 (The State House, 2025a, 2025b). This is an important update to earlier descriptions of the measures as merely 'proposed' bills.

The enacted framework has direct federal implications. Section 81 of the Nigeria Tax Administration Act provides that net VAT revenue is distributed 10% to the federal government, 55% to states and the Federal Capital Territory, and 35% to local governments; the state and local-government portions are then distributed using equality (50%), population (20%), and consumption (30%), with consumption determined by place of consumption (Federal Republic of Nigeria, 2025). This reduces the federal share and gives states and local governments a larger formal claim, but it does not eliminate regional contestation because consumption, population, and equality reward jurisdictions differently. The reform therefore illustrates the political-economy point that technically coherent changes to tax administration still produce territorial winners and losers.

The third pillar is revenue diversification and stronger internally generated revenue (IGR). The reform agenda encourages states to broaden tax bases, digitise administration, improve property taxation, and exploit local economic assets. In fiscal-federalism terms, stronger IGR is significant because it tightens the connection between subnational policy choices and the revenues available to finance them. Yet capacity is uneven. Economically diverse states with stronger tax administrations can respond rapidly, while poorer or conflict-affected states remain more dependent on FAAC. A uniform expectation of self-reliance would therefore deepen horizontal inequality unless revenue effort is combined with equalisation and capacity support.

Revenue allocation and subnational fiscal autonomy

The evidence indicates that fiscal restructuring has improved subnational liquidity more than it has altered subnational fiscal power. States now receive larger nominal transfers, and the tax framework gives them a larger share of VAT than the preceding arrangement. However, the dominant productive revenue bases remain governed through national constitutional and statutory arrangements. This distinction matters: a government that receives more transfers may have more spending capacity without acquiring greater authority over the revenue sources on which it depends.

This continued dependence is the core vertical imbalance identified in the underlying study. The 1999 Constitution assigns important fiscal powers to the federation while states and local governments retain extensive service-delivery obligations (Federal Republic of Nigeria, 1999). The result is a system in which political competition centres heavily on the distribution of centrally collected revenues. RMAFC's 2025 decision to reopen the revenue-allocation review confirms that the current formula is widely regarded as institutionally dated (RMAFC, 2025a, 2025b). A durable restructuring therefore requires attention to the assignment of powers and not only to the amount available for sharing.

Local government autonomy adds a further dimension. In *Attorney-General of the Federation v. Attorney-General of Abia State & 35 Ors.* (2024), the Supreme Court affirmed financial autonomy principles and authorised direct payment of federation allocations to constitutionally recognised local governments. The decision potentially strengthens grassroots accountability by reducing state-level interception of local funds. Yet formal autonomy alone cannot guarantee developmental outcomes. Local governments need elected institutions, transparent accounts, competent financial administration, procurement controls, and citizen oversight. From an NIE perspective, the judgment changes formal rules, but its development effect depends on enforcement and the institutional incentives surrounding local governance.

Horizontal imbalance remains equally important. High-capacity states can supplement FAAC with significant own-source revenue and are therefore better positioned to absorb inflationary shocks, finance infrastructure, and exploit tax reform. Low-capacity states face a double constraint: they are more dependent on federal transfers while also having less administrative capacity to convert new fiscal space into development outcomes. Fiscal federalism that emphasises autonomy without equalisation may therefore widen disparities; fiscal federalism that emphasises equal transfers without revenue effort may weaken accountability. The policy challenge is to combine both.

Implementation challenges and reform opportunities

The first challenge is constitutional and institutional. Administrative reforms cannot fully correct a constitutional allocation of revenue powers that produces persistent vertical imbalance. Constitutional change, however, is politically costly because it redistributes authority among tiers. This explains why Nigeria has repeatedly debated 'restructuring' while making more limited changes through statutes, executive policy, and transfer arrangements. North's (1990) concept of path dependence is useful here: established fiscal arrangements create beneficiaries, expectations, and administrative routines that make comprehensive change difficult even when the existing system is widely criticised.

The second challenge is distributional politics. VAT reform, derivation, resource control, and allocation criteria are evaluated differently by jurisdictions depending on their economic structure. The political economy of federalism predicts exactly this pattern. A policy that improves aggregate efficiency can still fail politically if transition losses are concentrated and compensation is absent (Riker, 1964; Rodden, 2006). The durability of Tinubu-era reforms consequently depends not only on technical design but on the construction of a broad reform coalition that regards the distribution of gains and adjustment costs as legitimate.

The third challenge is subnational capacity. Greater fiscal authority can improve responsiveness only when governments can administer taxes, plan expenditure, audit accounts, manage procurement, and report results. Evidence from Nigeria's federal history shows that decentralisation under weak institutional conditions can merely relocate rent-seeking rather than improve service delivery (Adesopo & Apeloko, 2025). This is why public financial management reform must accompany devolution. It is also why performance-based grants and transparent reporting can be useful complements to unconditional statutory transfers.

The reform programme nevertheless creates important opportunities. The subsidy reform increased the fiscal space available for redistribution; the tax laws provide a more harmonised administrative framework and a VAT formula that increases the combined subnational share; RMAFC has reopened debate on the allocation formula; and the Supreme Court ruling has created a legal basis for stronger local fiscal autonomy. Taken together, these changes create an institutional window for a more coherent federal compact. The opportunity will be lost, however, if higher revenue is treated as a substitute for structural reform or if social costs erode political support for the reform process.

Fiscal restructuring and equitable development

The equity effects of restructuring are mixed. Subsidy removal corrected a fiscally expensive and poorly targeted price intervention, but the immediate burden of higher transport and energy costs was broad and regressive. International assessments during 2024-2025 repeatedly stressed the need to expand effective cash transfers, protect priority social expenditure, and reduce food inflation so that macroeconomic stabilisation could translate into welfare gains (International Monetary Fund, 2025; World Bank, 2025). This is particularly relevant to federalism because states differ substantially in poverty incidence, fiscal capacity, infrastructure, and exposure to transport costs.

A sustainable federal reform therefore requires an explicit equalisation principle. Equalisation does not mean identical transfers or the elimination of derivation incentives. It means recognising differences between the fiscal capacity of a jurisdiction and the expenditure needed to provide reasonably comparable basic services. Well-designed equalisation can coexist with own-source revenue incentives when grants are transparent, formula-based, and do not fully compensate states for weak revenue effort. Such an approach is more consistent with the equity dimension of fiscal federalism than ad hoc federal interventions.

The central finding across the four objectives is consequently conditional rather than binary. Tinubu-era fiscal restructuring has neither straightforwardly strengthened nor straightforwardly weakened Nigerian federalism. It has increased nominal fiscal resources, modernised important tax institutions, and reopened questions of local autonomy and revenue allocation. At the same time, constitutional centralisation, uneven subnational capacity, regional distributional conflict, and high adjustment costs continue to constrain federal development. The outcome depends on how the next stage of reform addresses these mediating factors.

Conclusion

This paper concludes that the Tinubu administration has undertaken one of Nigeria's most consequential fiscal reform programmes in recent decades. Petrol-subsidy removal, tax restructuring, revenue mobilisation, and renewed attention to the revenue-allocation formula have changed the fiscal environment in which the federation operates. The reforms have generated larger nominal intergovernmental transfers and a more integrated tax-administration framework, but they have not removed the structural dependence of most states and local governments on centrally collected revenue.

The principal implication is that fiscal restructuring should not be confused with fiscal decentralisation. A stronger federal revenue position can support the federation, but federal structural development requires a closer alignment of revenue authority, expenditure responsibility, accountability, and equalisation. The tax reforms also show that intergovernmental fiscal change is inseparable from politics: even technically defensible rules must secure legitimacy across regions and tiers if they are to endure.

The most important unfinished task is therefore institutional. Nigeria requires a federal fiscal compact that combines stronger subnational own-source revenue, transparent and predictable transfers, credible local government autonomy, effective public financial management, and a formal mechanism for addressing horizontal inequality. Without these elements, the benefits of fiscal restructuring may remain primarily macro-fiscal rather than developmental.

Recommendations

- The federal government should initiate a focused constitutional review of revenue assignment so that subnational governments have greater authority over revenue sources that are closely connected to their expenditure responsibilities, while preserving federal responsibility for macroeconomic stabilisation, national redistribution, and taxes with strong cross-border effects.
- RMAFC should complete the ongoing revenue-allocation review through a transparent, data-driven process and incorporate an explicit fiscal-capacity equalisation component alongside population, equality, derivation, and other constitutionally relevant criteria. Distributional impact assessments should be published before a new formula is adopted.
- The 2024 Supreme Court decision on local government financial autonomy should be implemented through clear disbursement, audit, electoral, and accountability rules. Direct access to funds should be matched by transparent local budgets, timely audited accounts, procurement controls, and citizen-accessible reporting.
- State governments should treat IGR expansion as an autonomy strategy rather than simply a tax-collection exercise. Priorities should include digital administration, property and land-based revenue systems, wider taxpayer registration, lower nuisance levies, transparent tax procedures, and stronger links between taxes and visible public services.
- Federal and state governments should strengthen public financial management and adopt performance-based grants for clearly defined service-delivery and transparency outcomes. Such grants should supplement, not replace, constitutional statutory allocations.
- Social protection should be built into the design of future fiscal adjustment. Federal financing can support common standards and national portability, while state-level implementation should reflect regional differences in poverty, food prices, transport costs, and administrative capacity.
- International development partners should align technical assistance with Nigeria's federal institutions rather than applying generic decentralisation models. Priority support should include subnational revenue administration, fiscal-risk management, equalisation design, audit systems, and the measurement of state-level development outcomes.

Contribution and Future Research

The study contributes to the literature by analysing the Tinubu reform programme through an integrated framework that combines fiscal-federalism theory, political economy, and New Institutional Economics. It also demonstrates why the same reform can simultaneously improve aggregate fiscal space and intensify subnational distributional pressures. Future research should test these interpretive findings with state-level panel data on IGR, FAAC receipts, expenditure composition, poverty, and service delivery; examine gender and social-equity effects; compare reform trajectories across African federations; and evaluate the long-run implementation of the 2025 tax laws and the 2024 local-government autonomy judgment.

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