

Effect Of Statutory Allocation To Sub-National Governments On Economic Growth In Nigeria.

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Abstract

The vertical fiscal imbalance that characterise Nigeria federal system has constitute a serious impediment to growth and development at sub-national levels. The importance of revenue to nation building cannot be overemphasized, hence, devolving powers to the tiers of government without the required revenue to discharge their constitutional responsibilities renders them ineffective. This study examined the effect of statutory allocation to sub-national governments on economic growth in Nigeria. The study collected quarterly time series data from secondary source within the period 2001Q1 to 2021Q4 from Central Bank of Nigeria (CBN) annual statistical bulletin. The independent variables for the study are statutory allocation to state governments (SASG) and statutory allocation to local governments (SALG) while the dependent variable is economic growth proxied by gross domestic product (GDP). Employing Eviews 10, the study uses autoregressive distributed lag (ARDL) Co-integration tests and error correction model (ECM) for robust policy recommendations. Findings revealed that the statutory allocation to state government exerts positive and significant effect on economic growth in Nigeria while statutory allocation to local government exerts negative and significant effect on economic growth in Nigeria within the period under study. The study recommends that more funds be allocated to the state governments to sustain the trajectory of growth while measures that will checkmate the use of funds allocated to local governments be put in place. The measures to include training of local governments staff on financial management to reduce cost of governance, regular auditing of financial records, e-transaction should be encouraged and, erring staff should be sanctioned accordingly.

Keywords: *Statutory Allocation, Sub-nationals, Revenue Allocation, Economic Growth.*

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I. Introduction

Federalism is a system of government practiced by countries with heterogeneous composition, it requires that there are levels of governments with functions or powers shared among them to engender growth and development in the economy. Devolving powers to the tiers of government without the required revenue to discharge their constitutional responsibilities renders them ineffective. One thing that should be paramount is that development is greatly anchored on financial resources (Nwede, 2013), and it is a daunting and enormous task to build a nation. We

cannot be talking about development without financial consideration (Nwede, 2013). Hence, to ensure that the federating units in the Nigeria federal system, which consist of federal government and sub-national governments (36 states and 774 local governments) operates optimally, the constitution of the federal republic of Nigeria 1999 provides for statutory allocation of revenue to the tiers of governments on a monthly basis in the following order: Federal government (FG) 52.68%, state governments (SG) 26.72%, and local government (LG) 20.60%.

In Nigeria, decision as to who gets what share of the federally generated revenue has been very problematic, especially since the discovery of oil and its exploitation and exploration (Nkechi, 2013). Comfort and Okufuwa (2020) noted that the fiscal relationship among the levels of government tends to be tenuous and prone to political and economic conflicts, which affects economic growth and development. The introduction of democracy in 1999 according to Comfort and Okufuwa (2020) re-echoed the problems of intergovernmental fiscal arrangement among the different levels of government, when issues of revenue allocation and the sharing formula generated intense debate that led to the demand of a national conference, and the struggle for political power became the fight for resource control, regional and local government autonomy and the taxation powers that goes with it.

Federalism therefore provides the framework for addressing the political problem of administration and economic problem of resource distribution in a federal system with heterogenous composition like Nigeria. The issues of resource control, revenue allocation and fiscal federalism have dominated discussions at various levels of Nigeria's political debate (Olofin et al. 2021; Ordu & Omesì 2022). These clamor for review of the revenue

sharing formula, and then call for resource control has sojourned for over two decades despite the fact that paragraph 32, third schedule of the 1999 constitution provides that the revenue mobilization allocation and fiscal commission (RMAFC) review the revenue sharing formula every five (5) years.

The dissatisfaction among the federating units underlies an unending search for an acceptable revenue sharing formula contention (Asadu & Nwofia, 2018). The continuous demand by the sub-nationals only points to the fact that they are not satisfied with the current revenue sharing formula. The following factors according to Nkechi (2013) accounts for reasons why sub-nationals agitates for the review of revenue sharing formular i. The Nations state of uneven development vis-à-vis Abuja. ii. States inability to pay N18, 000 new minimum wage approved for Nigerian workers by president Goodluck Jonathan. iii. The unfaithful application of the derivation principle. iv. Unhealthy deduction from source before sharing of federation account revenue. So many deductions are made from the total revenue collected before the rest is distributed according to the sharing formular (Nwede, 2013).

The task of nation building is a daunting one and requires the sharing of statutory responsibilities and allocation of revenue to the components political units to finance development projects (Otinche 2018). There is, however, a grave mismatch between assigned responsibilities and revenue distribution among the federating blocks in Nigeria (Segun et al., 2014). Much analysis exists on the mismatch between the obligations of the regional governments and the dependent nature of their main revenue source which creates a fiscal imbalance (Akinboyo & Apinran, 2018). Most times, the high-yielding revenue types were assigned to the central government while substantial and growing expenditures are devolved to the sub-national governments, reflecting the presence of vertical fiscal imbalance (Segun et al., 2014; Onuigbo, 2015). A vertical fiscal imbalance is measured by the extent to which a tier of governments expenditures is financed by own assigned taxes (Gabriel & Charles, 2015)

Consequently, sub-national governments now largely depend on statutory revenue share from the federation account to finance development projects (Richard & Eme, 2015; Otinche 2018). This by implication act as a disincentive for States to generate sustainable revenue from economic activities within their territories to engender economic growth. Which is perhaps why two third of the state governments in Nigeria are unable to finance their recurrent and capital expenditure. Undersoring this assertion, Otinche (2018) averred that without federal allocation, the activities of the state and local governments will grind to a halt. To probe this illogicality therefore, question as to whether revenue allocation to sub-national governments affect the Nigeria economy begs for answer.

There had been well over nine (9) ad-hoc Commissions/Committees namely: Phillipson Commission (1946); Hicks-Phillipson Commission (1951); Chicks Commission (1968); Raisman Commission (1958); Binns Commission (1964); Dina Interim Committee (1968); Aboyade Technical Committee (1977); Okigbo Commission (1980) Danjuma's committee (1989) aimed at providing acceptable revenue sharing formula for the tiers of government even before the establishment of Revenue Mobilization, Allocation, and Fiscal Commission (RMAFC) as a permanent body to address revenue sharing challenges from pre- independence to date.

Although mostly theoretical, many studies like Olaoye and Bankole (2019); Nkechi (2013); Vande (2021); Lukpata and Ph (2013); Tom and Ataide (2021); Omodero et al. (2018) and Ebiezem (2016) had investigated the effect of revenue allocation on economic growth in Nigeria. Some studies like Omodero et al. (2019); Dang (2013); Gabriel and Charlce (2015); Omodero et al. (2018); Sylvester and Ade (2018); Aondowase et al. (2019); Omodero (2019) and Callistus and Felix (2019) that empirically assessed the effect of revenue allocation on economic growth in Nigeria, evaluated the effects using annual data.

However, because of the dearth of studies that empirically evaluated the effect of statutory allocation to sub-national governments on economic growth using quarterly data in their analyses, this study therefore, did not only use quarterly data but also extended the time frame to 2021q4. The study's main objective is to evaluate the effect of statutory allocation to sub-national governments on economic growth in Nigeria, but will specifically look at effect of statutory allocation to state governments on economic growth in Nigeria, and effect of statutory allocation to local governments on economic growth in Nigeria. Therefore, hypothesising in a null form; H_{01} : statutory allocation to state governments has no significant effect on economic growth in Nigeria. H_{02} : statutory allocation to local governments has no significant effect on economic growth in Nigeria.

II. Conceptual Framework

Statutory Allocation

Statutory allocation refers to the revenue distributions that is made from the federation account backed by law (the constitution of federal republic of Nigeria 1999). Federal allocation which is also referred to as statutory allocation is the share of revenue in the federal account that is distributed to the state governments from the federal government (Olaoye et al., 2022). It is the revenue that is shared among the tiers of government in federal system of government from the federation account on a monthly basis in accordance with an agreed formular (Federal government 52.68%, state governments 26.72% and Local governments 20.6%). Statutory

allocation is conceived as the constitutional transfer of financial resources from a distributable pool account to the tiers of government in a country, under pre-determined criteria. Statutory allocations to the tiers of government is not tied to any particular project, it is generally meant for economic growth and development, its usage is at the discretion of the executives of the respective tiers of government.

Sub-National Government

Sub-national government refers to government other than the central or federal government in a federation. it include the state governments, regional governments, local governments, counties, townships etc. Sub-national governments in Nigeria consists of the 36 states and 774 local governments.. The state government is the second-tier government in the Nigeria federating system. Its functions are as enshrine in the 1999 constitution of federal republic of Nigeria, it shares concurrent powers with the federal government on certain issues and in the event of conflict, the position of the federal government takes priority. The local government is the third-tier administrative structure created in Nigeria to decentralize governance and bring government closer to the people at the grassroots and render social services necessary to engender national development (Agba et al., 2014; Musa & Ajibade, 2016). The term local government is a political structure where the instrument of power is assigned to a local representative to exercise substantial control and to make authoritative decisions on local issues, it plays a very crucial role in stimulating and enhancing grassroots development (Yuguda & Yusof, 2014). The fourth schedule of the 1999 constitution of federal republic of Nigeria clearly defines its functions.

Economic Growth

Economic growth is generally viewed as an increase in per capita income. Generally, an increase in national income means an increase in total outputs of goods and service. Hence, it is seen as an increase in a country's real level of national output which is caused by an increase in the quality of resources and improvements in technology or an increase in the value of goods and services produced by every sector of the economy (Berembo et al., 2020). Kimberly (2019), defines economic growth as an increase in the productive capacity of a state in terms of production of goods and services over a specific period of time. This submission only looked at economic growth in terms of increase productive capacity, and this might not necessarily translate to growth in the economy. Hassan and Abdullah (2015) define economic growth as the increase in the real output per inhabitant, at the level of an economy within a period of time. This definition considered the welfare or standard of living of the citizens within the time frame, not really minding the countries productive capacity in terms of goods and services as posited by (Kimberly, 2019).

The gross domestic product (GDP) is one of the primary indicators used to gauge the health of a country's economy. According to the Central Bank of Nigeria (2018), Gross Domestic Product (GDP) is the monetary value of goods and services produced in an economy during a period of time irrespective of the nationality of the people who produced the goods and services. It is calculated without making deductions for depreciation. It represents the total dollar value of all goods and services produced over a specific time period. GDP may be seen as the godfather of the indicator world. Usually, GDP is expressed as a comparison to the previous quarter or year. For example, if the year-to-year GDP is up 5%, this is thought to mean that the economy has grown by 5% over the last year. GDP is defined as the final value of all finished goods and services produced within a country's borders during a specific time period (Aliyu & Mustapha, 2020).

Empirical Review

Ugwuele and Ogbudebe (2021) looked at Revenue Allocation and Economic Development in the South-Eastern States in Nigeria: 1986-2016. The study used time series data obtained from CBN Statistical Bulletin, which covered a period thirty (30) years from 1986 to 2016. Ordinary Least Squares technique was employed and documented in the methodology of the study. From the regression result of this study, the revenue allocation to state reflected significant negative impact on per capita income while revenue allocation to the local government showed significant positive impact. Therefore, the study recommends more revenue allocation to the local government councils since they are closer to the people and are in the best position to boost economic through attending the Infrastructural needs that are glaring to them. The study is also suggesting more stringent measures in dealing with corrupt practices in the government system, which will guarantee efficient and effective use of resources to achieve the and economic goals.

Owolabi and Awoyinka (2020) examine federal government statutory fund allocation infrastructural development in ogun state, nigeria. The study employed ex-post facto research design with ARDL method of analysis and data was sourced from National bureau of statistics, Ogun State Inland Revenue Service, Ogun State Ministry of Finance and Ministry of Budget and Planning. Findings revealed that federal statutory revenue state allocation significantly affects environmental management in Ogun State ($R^2 = 64\%$, $t\text{-stat}(1,19)=6.095293$, $p<0.05$); that federal statutory revenue state allocation significantly affects educational development in Ogun State ($R^2 = 73\%$, $t\text{-stat}(1,19)=-3.811322$, $p<0.05$); that federal statutory revenue state allocation significantly

affects agricultural development in Ogun State ($R^2 = 34\%$, $t\text{-stat}(1,19)=-5.707987$, $p<0.05$); that federal statutory revenue state allocation significantly affects health sector in Ogun State ($R^2 = 67\%$, $t\text{-stat}(1,19)=-9.379976$, $p<0.05$) and that federal statutory revenue state allocation significantly affects infrastructural development in Ogun State ($R^2 = 77\%$, $F\text{-stat}(4,16)=89.68$, $p<0.05$). The study concluded that both in the short and long runs federal statutory revenue state allocation significantly affect infrastructural development in Ogun State.

Callistus and Felix (2019) investigated the impact of revenue allocation on economic growth in Nigeria using time series data from 1981 to 2016. The ex post facto research design was employed in the study which necessitated the use of the augmented unit root test, Cointegration test and the Error Correction Model to analyze the data. Revenue allocations to two levels of government were used as independent variables while real gross domestic product represents economic growth. The study found that revenue allocations to the federal government and state government both had a significant positive impact on economic growth in Nigeria for the period studied. Therefore, the study recommended that the continuous agitation for more revenue allocation to states should be reviewed properly by federal government and state governments to ensure a sustained increase in the direction of the impact of it on real GDP.

Omodero et al. (2019) investigated the impacts of federation account allocated funds on economic growth in Nigeria prior to reinstatement of democracy and after the restoration witnessed in May 29, 1999. The study employs annual time series data from 1989 to 1998 for pre restoration evaluation while data employed for post reinstatement assessment span from 2007 to 2016. All data were collected from CBN Statistical Bulletin, 2016 edition. Ordinary least square method was used to perform the multi-regression analysis with the aid of Statistical Package for Social Sciences version 20. The findings of the study disclose that FAFG has a significant positive impact on real gross domestic product (RGDP) after restoration of democracy while prior to restoration of democracy, the result reveals an insignificant negative influence on RGDP. FASG has insignificant positive impact on RGDP both on pre and post restoration of democracy while FALG has insignificant negative impact on RGDP in both scenarios tested. This leads to a conclusion that mismanagement of funds by the three tiers of government in Nigeria is responsible for dwindling economic growth in Nigeria and recommends proper use of resources by all levels of government in the country.

Aondowase et al. (2019) examined the impact of revenue allocation on economic development in Nigeria. Johansen cointegration technique and Dynamic Ordinary Least Squares (DOLS) were used to analyze the data. The results indicated that only revenue allocation to the federal government has positive and significant impact on economic development in Nigeria. However, revenue allocation to state and local government has positive but not significant impact on economic development. The study therefore recommended that federal government should increase sources of revenue through economic diversification. This is expected to reduce heavy reliance of the government on crude oil and eventually promotes economic development in Nigeria. The study also recommended that state and local government should improve their internally generated revenue so as to augment allocation received from federal government.

Sylvester and Ade (2018) examined Revenue allocation in Nigeria: Implications for Sustainable National Development. It uses the methodology of Error correction model (ECM) in conjunction with diagnostic tests of variables using Johansen Co-integration tests for robust policy recommendations. Using the Gross Domestic Product (GDP) as the dependent variable and Revenue allocation to the three levels of government, inflation, and lending interest rate as the independent variables, the results showed that only revenue allocation to state government (LRAST) and consumer price index (LCPI) are statistically significant determinant of economic growth at t10 and 1 percent level of significance given that their values 0.0532 and 0.0002 respectively are less than 10 and 1 level of significance while the other variables (LRAFG, LEALF, LLIN and LGDP(-1)) are shown to be statistically insignificant within the model. The study recommended among others that there should be accountability and transparency in the federating units to achieve national goals and objectives. Various levels of government should be given adequate funds to enable it to carry out its expenditure responsibilities to accelerate grass root development in the economy.

III. Theoretical Framework

Endogenous Growth Theory

The endogenous growth theory by Romer (1994) is used to anchor this study just like the works of Dang (2013); Omodero et al (2018); Sylvester and Ade (2018) and many more. This study adopts the endogenous growth theory because it tries to go beyond the limitations of other theories to establish that long run economic growth primarily depends on policy measures within an economy. The theory states that economic growth is generated internally in an economy, i.e., through endogenous forces, and not through exogenous ones. Unlike neoclassical growth model, which claims that external factors such as technological progress, etc. are the main sources of economic growth, the endogenous growth theory posited that internal factors like human capital and investment in knowledge of people plays an important role in economic growth.

The model assumes the absence of diminishing return on capital, i.e., there is increasing return to scale by investing in human capital through education or trainings which will lead to increase productivity because of improved labor quality. This theory's concept believes that increase productivity that will lead to economic growth can be achieved if there is improvement in knowledge, innovation, and human capital in an economy. Endogenous growth model indicates an active role for government revenue and government spending in promoting economic development through direct and indirect investments in human capital formation (education), infrastructure and research and development (Olayungbo & Olayemi, 2018).

IV. Research Methodology

The research design of this study is ex-post facto. Ex-post facto implies after event, thus, the reason for its adoption is the historical nature of the research data which were all in existence as at the time of this study. i.e., using existing data to predict future outcomes (Callistus & Felix 2019), since the researcher only investigates a problem by studying the variables in retrospect. The data on SASG, SALG and GDP are historical in nature and this will permit verification and synthetization of evidence from the past to establish facts that either defend or refute the hypothesis that would be tested.

Augmented dickey fuller unit root test for stationarity of the data series employed was checked. The results indicates that LGDP data series is stationary at levels I(0) while the LRAFG data series is only stationary at first difference I(1). This test is necessary because non-stationary time series can lead to spurious correlation when used in econometric model. A time series is said to be stationary when the statistical properties like mean, variance and covariance of the distribution are constant over time. H_0 : There is unit root; H_1 : There is no unit root. Decision rule; if the ADF test statistics value is greater than the critical value at 5% level of significance, we reject the null hypothesis and accept the alternative hypothesis which states that there is no unit root. The opposite is the case should the result be otherwise.

The data analysis techniques used include the autoregressive distributed lag (ARDL) and error correction model (ECM) method of estimating a simple linear regression. The ARDL technique is chosen because it can be applied on variables that are either I(1) or I(0) or combination of the two and the approach yields unbiased estimates and its t-statistics are effective even if some of the regressors are endogenous (Harris & Sollis 2003), while the ECM techniques is also applied to determine the speed of adjustment from long run to short run equilibrium because the variables were found to be cointegrated, hence long run relationship exist between the variables.

Model Specification

This study just like Sylvester and Ade (2018) adopts the Romer endogenous growth model which stresses the importance of investment in new knowledge, research and development in technology, capital and labor availability.

$$Y = F(AR, K) \dots\dots\dots (1)$$

Following the assumption of Romer model, the results from expenditure on research and development, AR, is identified by the shares of revenue to the state and local government from federation account into the model. This is because revenue enters the growth equation through expenditure on physical and human capital development. Thus, the model becomes:

$$GDP = F(SASG) + (SALG) \dots\dots\dots (2)$$

Thus, converting the above model to an econometric model;

$$GDP = \beta_0 + \beta_1 SASG_{1t} + \beta_2 SALG_{1t} + \mu_t \dots\dots\dots (3)$$

To allow for easy interpretation of their coefficients for elasticity's, the log-linear analysis is applied to the model; $LGDP = \beta_0 + \beta_1 LSASG_{1t} + \beta_2 LSALG_{1t} + \mu_t \dots\dots\dots (4)$

Where: LGDP = Log of Gross Domestic Product; LSASG= Log of Statutory Allocation to state Government; LSALG= Log of Statutory Allocation to Local Government; β_0 is a constant; β_1 and β_2 are coefficients of the regression model; μ is the error term (disturbance term) and t is the time.

Where, $H_0 = \beta_1 + \beta_2 = 0$. $H_1 = \beta_1 + \beta_2 \neq 0$. $\beta_0 = \beta_1 + \beta_2 > 0$

ARDL Model: Equation 4 can be expressed as:

$$\Delta LGDP = \beta_0 + \sum_{i=1}^p \beta_1 \Delta LGDP_{t-i} + \sum_{i=1}^q \beta_2 \Delta LSASG_{t-i} + \sum_{i=1}^q \beta_3 \Delta LSALG_{t-1} + \lambda ECM_{t-1} + \mu_{it} \dots\dots\dots (5)$$

Equation 5 is the ARDL short run specification derived through the construction of an error correction model (ECM), λ in the equation is the coefficient of the ECM, which denotes the speed of adjustment or re-equilibration to equilibrium position whenever there is deviation as a result of shocks, hence, it must be negative, less than one and statistically significant.

Table 1
Variable measurement

Variable	Measurement	Supporting Studies
Economic Growth	Economic growth is measured using the total value of gross domestic product (GDP) every quarter of the year from 2001Q1 to 2021Q4. I.e, GDP is the proxy for economic growth. It is the dependent variable in this study.	Omodero et al. (2019) Omodero (2019)
Statutory Allocation to state government (SASG)	Statutory Allocation to state governments (SASG) is measured by the value of federation account revenue allocation to the state governments every quarter of the year from 2001Q1 to 2021Q4. SASG is an independent variable in this study	Sylvester and Ade (2018) Callistus and Felix (2019) Gabriel and Charles (2015) Aondowase et al. (2019)
Statutory allocation to local government (SALG)	Statutory allocation to local governments (SALG) is measured by the value of federation account revenue allocation to local governments every quarter of the year from 2001Q1 to 2021Q4. SALG is an independent variable in this study	Comfort and Okufuwa (2020) Aondowase et al. (2019) Sylvester and Ade (2018)

Source: Author's computation using Eviews 10

V. Findings and Discussion

Table 2
Augmented Dickey-Fuller Unit Root Test

Variables	ADF test statistics at levels	critical value (5%)	ADF test statistic at 1 st Difference	critical value (5%)	Order of integration
LGDP	-2.940498	-2.899619	-4.773578	-2.899619	I(0)
LSASG	-1.900487	-2.898623	-3.289167	-2.898623	I(1)
LSALG	-1.918030	-2.898145	-5.231277	-2.898605	I(1)

Source: Authors' computation using eviews 10

The ADF result indicated that LGDP is integrated at levels I(0) while LSASG and LSALG are integrated at first difference I(1).

Table 3
ARDL Bounds test result

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
Asymptotic: n=1000				
F-statistic	4.995263	10%	2.63	3.35
K	2	5%	3.1	3.87
		2.5%	3.55	4.38
		1%	4.13	.5

Source: Author's Computation using E-Views 10

Bounds Test for Cointegration: This study relies on the ARDL bounds test approach to co-integration developed by Pesaran et al., (2001) to test for cointegration. The ARDL bounds test approach to co-integration has been demonstrated to perform better than other traditional cointegration methods. This is because of its numerous advantages over other long run estimation techniques. It can be applied on variables that are either I(1) or I(0) or combination of the two and the approach yields unbiased estimates and its t-statistics are effective even if some of the regressors are endogenous (Harris & Sollis 2003). Therefore, using ARDL bounds test for cointegration, the presence of long run equilibrium relationship among the variables was checked. The outcome of the bounds test in table 3 revealed the presence of cointegration i.e., there is a long run equilibrium relationship between the dependent and independent variables. This conclusion was drawn from the result in table 3 given that the value of the F-statistics (4.995263) is greater than the critical value (3.87) of the upper bound at 5% level of significance.

Table 4
VAR Lag Order Selection Criterion

Lag	LogL	LR	FPE	AIC	SC	HQ
0	16.49343	NA	0.000141	-0.355090	-0.263088	-0.318321

1	191.0737	330.7837	1.80e-06	-4.712466	-4.344455*	-4.565391*
2	200.7049	17.48823	1.78e-06	-4.729077	-4.085058	-4.471696
3	207.4630	11.73766	1.89e-06	-4.670078	-3.750051	-4.302391
4	213.4822	9.979225	2.06e-06	-4.591636	-3.395602	-4.113643
5	230.0958	26.23198*	1.70e-06*	-4.791994*	-3.319952	-4.203694
6	235.6648	8.353587	1.88e-06	-4.701706	-2.953656	-4.003100
7	241.3632	8.097744	2.09e-06	-4.614822	-2.590764	-3.805910
8	250.7142	12.55005	2.13e-06	-4.624059	-2.323993	-3.704842

* Indicates lag order selected by the criterion
 Source: Author's computation using EViews 10

Table 4 showed the optimal lag order selection process where Akaike info criterion (AIC) lag 5 is selected because it has the lowest asterisk value.

ARDL error correction model

The ARDL short run result in table 5 showed the existence of a positive and statistically significant (0.0345) relationship between revenue allocation to state government and economic growth, while the statutory allocation to local government has a negative and significant (0.0447) relationship with economic growth. It also showed that the one period lag error correction term (CointEq(-1)*) passed the three basic criteria as the coefficient value (-0.138664) is negative, less than one and p-value (0.0000) is statistically significant. Multiplying the absolute value of the one period lag error correction term coefficient of -0.138664 by 100% gives us 13.8 %, meaning that there is 13.86% speed of adjustment from the short run to long run if there is any disequilibrium in the system. i.e., it takes an average speed of 13.86 % to adjust from disequilibrium to equilibrium quarterly.

The R squared coefficient value (0.456527) which measures the goodness of fit of the estimated model showed that the independent variables D(LSASG) and D(LSALG) both explained 45.7% of the total variation of the dependent variable D(LGDP), suggesting that the model is reasonably fit in prediction. while the remaining unexplained 54.3 % is done by variables not included in this model. i.e., it is captured by the white noise error term. The Durbin Watson statistics (1-913293) indicated that the model is also free from the problem of autocorrelation or serial correlation.

Table 5
ARDL Error Correction Result

ECM Regression				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LGDP(-1))	-0.526358	0.114069	-4.614397	0.0000
D(LGDP(-2))	-0.420644	0.129324	-3.252629	0.0019
D(LGDP(-3))	-0.407975	0.135692	-3.006633	0.0038
D(LGDP(-4))	-0.302253	0.126707	-2.385449	0.0202
D(LSG)	0.630510	0.291531	2.162755	0.0345
D(LSG(-1))	-0.809792	0.418393	-1.935481	0.0576
D(LSG(-2))	-0.625508	0.387244	-1.615281	0.1114
D(LSG(-3))	-0.444598	0.343445	-1.294525	0.2004
D(LSG(-4))	-0.214013	0.295395	-0.724496	0.4715
D(LLG)	-0.379189	0.184966	-2.050049	0.0447
D(LLG(-1))	0.855502	0.318281	2.687881	0.0093
D(LLG(-2))	0.649837	0.285951	2.272545	0.0266
D(LLG(-3))	0.610671	0.255222	2.392701	0.0198
D(LLG(-4))	0.348877	0.185470	1.881046	0.0647
CointEq(-1)*	-0.138664	0.030285	-4.578616	0.0000

R-Squared 0.456527 Adjusted R-Squared 0.337643 Durbin Watson Sta 1.913293

Source: Authurs' computation using eviews 10

The coefficient of D(LSASG) is positive (0.630510) thus supporting the studies of Callistus and Felix (2019); Sylvester and Ade (2018) that had positive and significant effect on economic growth but contrasted with the studies of Ahmed et al. (2017); Dang (2013); Gabriel and Charlce (2015) which had negative and insignificant effect on the economy. Against the apriori expectations, the coefficient of D(LSALG) is negative (-0.379189) and significant indicating a negative relationship between statutory allocation to local government and economic

growth in Nigeria just like the studies of Omodero et al. (2019) and Sylvester and Ade (2018), it however contrast with that of Ugwuele and Ogbudebe (2021) and Omodero (2019). The coefficient of 0,630510 for D(LSASG) and -0.379189 for D(LSALG) implies that a percentage change in statutory allocation to state government increases the D(LGDP) by 63.0 % while percentage change in statutory allocation to local government decreases D(LGDP) by 38.0 %. Generally, the findings provide support for endogenous growth model by (Romer, 1994).

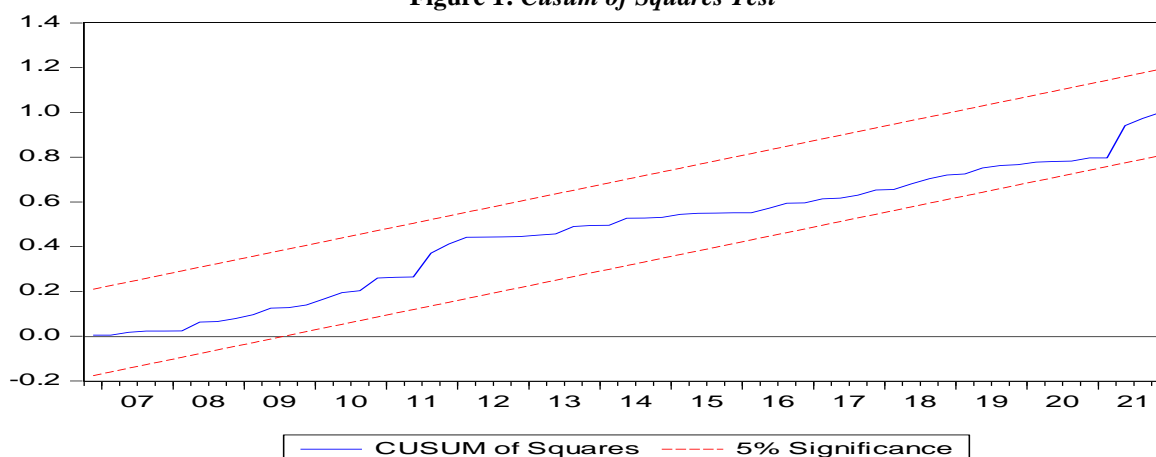
Table 5
Diagonistic Tests

Test Type	F-statistics Coefficient	Df	P-values
Breusch-Godfrey: Serial Correlation LM Test	1.220963	Prob. F(8,53)	0.3052
Breusch-Pagan-Godfrey: Heteroskedasticity Test	1.026821	Prob. F(17,61)	0.4439
Ramsey Reset Test	0.104678	Prob. F(1, 80)	0.7471

Source: Authurs’ computation using evIEWS 10

The Breusch-Godfrey Serial correlation LM test and the heteroskedasticity tests results showed that there is no serial correlation in the model and the residuals are Homoskedastic. The Ramsey reset test result showed that the model is well specified, hence, the null hypothesis: Model is correctly specified is accepted since there is no misspecification problem in the model. Their respective p-values 0.3052, 0.4439 and 0.7471 are not significant using a 5% significant level.

Figure 1: Cusum of Squares Test



The Cusum of Squares test result in figure 1 showed that the blue line lies within the 5% critical line which prove that the residual variances are relatively stable.

VI. Conclusion and Recommendations

The study hypothesized ab-initio that statutory allocation to State governments (SG) and Local governments (LG) does not have significant effect on economic growth in Nigeria, The result in table 3 where D(LSASG) has coefficient of 0.630510 and p-value 0.0345 indicated that statutory allocation to SG exerts positive and significant effect on D(LGDP) while statutory allocation to LG has negative (-0.379189) and significant (0.0447) effect on D(LGDP). Accordingly, the study rejects the null hypothesis and accepts the alternative hypothesis in respect of statutory allocation to both state governments and local governments.

The outcome of the empirical analyses supports the fact that statutory allocation to state governments contributes positively to economic growth in Nigeria, but allocation to local government impacts negatively on the economy, which is a manifestation of misappropriation of funds and corrupt practices at the local government level in Nigeria. In view of the forgoing, the study recommended that;

- a) Statutory allocation from the federation account to the state governments should be increased to sustain the trajectory of growth.
- b) Measures that will checkmate the use of funds allocated to local governments be put in place. The measures to include training of local governments staff on financial management to reduce cost of governance, regular auditing of financial records, e-transaction should be encouraged and, erring staff should be sanctioned accordingly.

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