CALEB INTERNATIONAL JOURNAL OF DEVELOPMENT STUDIES (CIJDS)

VOL. 7, NO. 1, June 2024
https://doi.org/10.26772/cijds-2024-07-01-03

IMPACT OF FISCAL DECENTRALIZATION ON THE ECONOMIC GROWTH OF KADUNA STATE.

***Onyekwere, Cecil Chinedum[1]; Alexander, A.A.[2], Saheed, Z[3]; Duru, Mike[4]; Yakubu, Alfa[5]; Ikubor, Jude[6]**
[1,2,3,4,5,6] Department of Economics
Nigerian Defense Academy, Kaduna. Nigeria

Abstract
*The economic development of local governments in Nigeria faces several challenges, including revenue allocation, lack of autonomy, and constant interference by the State Government. There is a widespread belief that Fiscal Decentralization (FD) is the remedy to these challenges, and this study used panel data from 2006 to 2021 to examine the effect of fiscal decentralization on economic growth in the 23 local government areas of Kaduna state. Fiscal Decentralization between Kaduna state and each local government was measured using four indicators, namely, revenue indicator (**RI**), expenditure indicator (**EI**), autonomy indicator (**AI**) and capital indicator (**CI**). Except for the expenditure indicator, the study's findings indicate that all measures of fiscal decentralization are positively and significantly correlated with economic growth. Further findings revealed that a possible explanation for why the expenditure indicator is negatively related to economic growth is that Local Governments are often used as administrative spending units, where spending decisions reflect the state government's policies regardless of the immediate needs of the local government area in question. Based on the findings of this research, it is recommended that Kaduna state government should promote true fiscal decentralization by assigning more fiscal responsibilities to Local governments in order to bring about faster economic growth in all regions of the state.*

1.0 Introduction.

For many years it was believed that technology and population growth are the true drivers of economic growth. However, these factors have been proven to be outside the control of economic agents (exogenous) according to the growth model of Solow (1956). In contrast to the classical models, new endogenous growth models have shed light on the possibility of increasing a country's growth rate through the use of fiscal policies (Amaegbiri & Nsikhe, 2020). Fiscal Decentralization (FD) involves increasing the umbrella of developmental activities local governments can embark on by assigning more expenditure and revenue-generating functions to them (Eniekezimene, 2021). The economic argument for FD is that it increases efficiency and this refers to the economic gains from delivering goods and services that match the needs and preferences of local citizens due to the proximity of government to the people (Oates, 1972).

Applications of FD can be seen in countries such as the United States, Canada and Denmark (Koledoye, 2017). Although these countries can be argued to have achieved steady increases in the level of economic growth, Nigeria is yet to replicate the type of success seen in Western/European countries as more than half of the population in

ONLINE ISSN: 3026-9539 PRINT ISSN: 3027-1142

Nigeria live on less than US $1 per day (Okonta & Nwankwo, 2023). A country with poorly implemented FD schemes may experience issues such as regional income inequality, mismanagement of public funds and high administrative costs that may erode any economic gains from FD (Eniekezimene, 2021).

Despite the availability of empirical research on the impact of FD on economic growth in Nigeria, there are few studies concentrating on FD between States and Local governments. Motivated by the scarcity of empirical research in this area and the heterogeneities in both theoretical and empirical literature, this paper aims to bridge this gap by shedding more light on FD between Kaduna State and the twenty-three Local Government Areas of the State.

The 1999 Constitution of Nigeria defines the fiscal authority and functions of each tier of government. In the current revenue-sharing arrangement, the Federal Government takes 52.68 per cent, leaving the state and LGs with 26.72 per cent and 20.60 per cent, respectively. Each State is mandated to contribute 10% of its internally generated revenue into a joint State and Local Government account (SLJA) to be shared equally amongst local governments. However, the effectiveness of local governance has been severely hindered due to constant interference by the State governments.

Kaduna state government in particular has repeatedly failed to remit 10% of its IGR to the local governments as shown in its annual published financial reports and the State often hijacks part of the local government's share of statutory allocations through the SLJA (Bello, 2013). On paper, Local governments in Kaduna state receive billions of naira in statutory allocations monthly, yet the rate of economic growth seen in these areas is far from commensurate with the funds received (Amaegbiri & Nsikhe, 2020).

The objective of this paper is to determine if increased FD between Kaduna state and its twenty-three local government areas promotes economic growth. This paper is organized into five sections. Section one provides a brief background to the study, section two reviews the literature on FD, section three discusses the research methodology, section four analyzes the results, section five concludes and provides a few recommendations.

1.0 Literature Review

Fiscal Decentralization refers to the devolution of authority over public revenue and expenditure to lower tiers of government (Ewetan & Ike, 2016). The concept of FD is efficiency in governance by taking advantage of the proximity of lower tiers of government to citizens in the provision of tailored public goods and services (Eniekezimene, 2021). This efficiency in governance is what promotes economic growth. To measure FD, one has to be capable of calculating the degree of devolution of power from State to local governments. This is usually done by using accounting measures such as the ratio of local government revenue and expenditure to State government revenue and expenditure respectively (Atan & Esu, 2021). Despite the potential benefits of FD to economic growth, there are noteworthy arguments that warn against its implementation. Amaegberi and Nsikhe (2020) argue that FD can lead to lower quality of governance, increased corruption, the emergence of interest groups that seek to maximize their interest at the expense of the community and the lack of basic

infrastructure in place or the institutions to adequately provide public goods and services at an efficient level.

2.1 Conceptual and Theoretical Review

The conceptual theory of this study is based on the decentralization theorem of Oates (1972). This philosophy argues that FD increases both allocative and productive efficiency and it is within this context that the economic gains from FD are expected. Allocative efficiency refers to the economic gains from delivering goods and services that match the needs and preferences of local citizens due to the geographical proximity of the government to the people. Productive efficiency refers to the economic gains that will be achieved from providing goods and services to the local citizenry at the lowest possible cost due to inter-jurisdictional competition and public entrepreneurship.

The major critique towards Oates's decentralization theorem is that it does not provide a clear and distinctive explanation that substantiates the direct link between FD and economic growth. As such, the inclusion of FD in a growth model may appear arbitrary to the casual observer because FD is defined as the proportion of subnational fiscal resources in total national fiscal resources and this is not a measure of efficiency within the various levels of government.

This study's theoretical framework is established on a modified version of the endogenous growth model by Barro (1990) which identifies linear relationships between government expenditure and economic growth. As such, a growth model that captures revenue and expenditure by different tiers of government is the most appropriate for this paper. Overall, this model indicates that if actual expenditure shares do not match growth-maximizing ones, reallocating resources across the tiers of government will boost economic growth.

2.2 Empirical Review

Atan and Esu (2021) used time series data from 1981 to 2018 to analyze the impact of FD on economic growth in Nigeria at the national level. They used FD data (which comprised expenditures and revenue share of Federal, State and Local governments) and Error Correction Mechanism (ECM) to conduct their research. The results showed that FD has no statistically insignificant relationship with economic growth at the sub-national level.

Amaegbiri and Nsikhe (2020) used time series data from 2005 to 2016 to examine the effect of FD on economic growth in Bayelsa and Delta States using the Seemingly Unrelated Regression Equations (SURE). Using revenue decentralization and fiscal autonomy as measures of FD, the results showed federal allocations promotes economic growth in both states, while fiscal autonomy contributes insignificantly to economic growth.

Ewetan et al. (2016) used a multivariate Vector Auto-Regressive (VAR) model and ECM to investigate the long-term link between FD and economic development in Nigeria from 1970 to 2012. Using three measures of FD (fiscal autonomy, revenue and expenditure

decentralization) the results showed that all three measures of fiscal decentralization displayed a positive and significant long-run relationship with economic growth.
Okonkwo and Godslove (2015) investigated the impact of fiscal decentralization on macroeconomic performance and stability in Nigeria between the period 1986 to 2012 using ECM and core fiscal decentralization variables of revenue, expenditure decentralization and fiscal autonomy. The findings of the study provided weak evidence that fiscal decentralization has a positive significant impact on macroeconomic stability in Nigeria.

3.0 Methodology

3.1 Research Design

The use of one indicator cannot accurately capture and quantify the true amount of FD because, expenditure, internally generated revenue, and statutory transfers from the Federal government are all different aspects of FD. (Eniekezimene, 2021). As such, four FD indicators will be used to assess the impact of FD on economic growth. These indicators include Revenue indicator (**RI**), Expenditure Indicator (**EI**), Autonomy Indicator (**AI**), and Capital Indicator (**CI**).

3.2 Sample of Study

Data from Kaduna state and its twenty-three local government areas (LGAs) from year 2006 to 2021 were used to investigate the relationship between FD and economic growth. This research used the published audited annual accounts from the twenty-three LGAs in Kaduna State to generate the data used to analyze the effect of FD on economic growth.

3.3 Model Specification

The endogenous growth model used in this study was adapted from the works of Philip and Isah (2012) and Atan and Esu (2021). The model assumes that output (Y) in is produced by two sectors of the economy: the private sector (P) and the government sector (G).

$$Y = P + G \quad (1)$$

In this model, output (Y) is dependent on labour (L) and capital (K) inputs from both the government sector (G) and private sector (P) as shown in equations (2) and (3).

$$P = p(L_p K_p Rg) \quad (2)$$

$$G = g(L_g K_g) \quad (3)$$

It is further assumed that output in the government sector (government expenditure) has an externality effect on output in the private sector. This is represented in the model as the resource allocation policy of the government (Rg).

$$L = L_p + L_g \quad (4)$$

$$K = K_p + K_G \quad (5)$$

Equation 4 illustrates that total labour input in the economy comes from both the private sector and government sector while equation (5) illustrates that total capital input in the economy comes from both the private sector and government sector.

$$Y = f(L, K, R_g) \quad (6)$$

The total inputs (labour and capital) from both the private government sectors are represented by equations (4) and (5). Therefore, the total output function is shown in equation (6). Assuming that resources in the government sector (G), are allocated to two tiers of government: State (S) and local (L); then

$$G = S + L \quad (7)$$

Equations (7) provides a statement of statutory allocations to state and local governments; and if Q denotes local government resources, therefore

$$Q = L \quad (8)$$

Equation (8) represents local government share of total government revenue and expenditure but is subsumed in (7), while (7) is imbedded in (6). Equation (6) becomes our baseline equation, and the Rg component will be unbundled subsequently. Ewetan et al. (2016) and Atan and Esu (2021) adopted this approach in their model specification. Given the factor input components of equation (6), equation (6) is re-written as a Cobb-Douglas production function:

$$Y = f(L^{\beta_1} K^{\beta_2} A) \quad (9)$$

Where Y is output growth rate; L is labour and K is capital; which is divided into human and physical capital and A represents total factor productivity (TFP), which is regarded as an efficiency parameter. The model assumes implicitly that endogenous variables are instrumental to the establishment of the behaviour of the TFP component of the model. The TFP is therefore structured as:

$$A = f(R_g, X) \quad (10)$$

$$R_g = f(FD_j) \quad (11)$$

Where FD_j represents each of the five FD indicators discussed previously and X is the vector of some control variables which, in most economic growth studies, have been found to interact positively and significantly with economic growth. Equations (9) therefore can be expressed as a linearized composite function by taking the log of both sides thus:

$$Y_{it} = L_{it} + K_{it}^h + K_{it}^c + FD_{jit} + X_{it} \quad (12)$$

Where *i* represent each local government area, *t* signifies the time period, *j* represents the FD indicator being used, L_{it} represents labour, K_{it}^h and K_{it}^c represent human and physical capital respectively. To adaptable for OLS estimation, the econometric version of equation (12) is restated as thus:

$$Y_{it} = \beta_0 + \beta_1 L_{it} + \beta_2 K_{it}^h + \beta_3 K_{it}^c + \beta_4 FD_{jit} + \beta_5 X_{it} + E_{it} \quad (13)$$

Where β_0 is the constant parameter; β_i are elasticities of the above defined variables and their expected signs are discussed in the next sub-section; E_{it} represents the stochastic error term which is assumed to be normally distributed, homoscedastic, and independent across observations and rest of the variables are as were earlier defined. Equation (13) consists of regressing indices of economic growth on a list of Local government characteristics including measures of FD and a set of independent variables.

3.4 Data and Sources of Data Collection

There are several variables suggested by economic growth theory that affect economic growth and omitting these variables may lead to endogeneity problems and biased results. Due to the unavailability of data at the local government level, economic growth is measured using the internally generated revenue (IGR) of each local government. Table 1 shows independent variables that are known to impact the IGR in each local government as well as their sources and definitions.

Variable Name	Description	Expected Sign	Data Source
IGR	LG Internally generated revenue per Capita		Published audited annual reports of each Local government
RI	Ratio of local government total revenue to combined State and local government revenue	+	Published audited annual reports of Kaduna State and each Local government
EI	Ratio of local government total expenditure to combined State and local government expenditure	+	Published audited annual reports of Kaduna State and each Local government
AI	Ratio of Local government's own revenue share of its total revenue	+	Published audited annual reports of Kaduna State and each Local government
CI	Ratio of local government capital expenditure to combined State and local government capital expenditure.	+	Published audited annual reports of Kaduna State and each Local government
CEX	Physical capital measured by capital investments by each Local government	+	Published audited annual reports of each Local government
PED	Human capital measured by primary education expenses in each Local government area	+	Published audited annual reports of each Local government
APC	Political party in power captured by a dummy variable	+	Published audited annual reports of each Local government
COP	Corruption Rate is measured by the percentage of overhead expenditure that violates appropriation law.	-	Published audited annual reports of each Local government
PEM	Public Sector Employment rate measured as Personnel Emolument in each Local government area.	+	Published audited annual reports of each Local government

3.5 Data Analysis Technique

The effect of FD on economic growth will be estimated using a Fixed Effects model (FE), Pooled OLS model and Auto Regressive Distributed Lag Model (ARDL). The FE model lays emphasis on the variation within panels and is appropriate for investigating the effect of FD within a local government area across time. The Pooled OLS model uses the average deviation across panels to investigate the average effect of effect FD on economic growth across local government areas. The ARDL Model enables the estimation of short and long run effects of FD on economic growth across and within local government areas. In addition, these three techniques are useful in addressing the issue of small sample size and unobserved heterogeneity since they possess both time-series and cross-section dimensions.

Results and Discussion of Findings

Variable	Type	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis	Observations
IGR	**Overall**	24.89199	93.6266	-94.9645	321.4143	1.3748	4.1878	N = 368
PED	**Overall**	2145.964	1026.975	123.0156	6458.567	0.5624	2.3342	N = 368
PEM	**Overall**	1374.659	706.9172	188.0803	6202.966	0.827	3.1597	N = 368
COR	**Overall**	8.559906	13.12555	-49.1019	51.5348	0.03917	5.1545	N = 368
CEX	**Overall**	1286.396	908.3759	3.3985	6778.337	0.6323	2.4918	N = 368
APC	**Overall**	0.4021739	0.491004	0	1	0.399	1.1592	N = 368
RI	**Overall**	0.0792364	0.226951	0.009	0.9658	0.6534	3.5321	N = 368
EI	**Overall**	0.0164764	0.004399	0.0064	0.0313	0.2377	2.3766	N = 368
AI	**Overall**	0.0268155	0.021941	0.0012	0.1495	0.4584	2.1708	N = 368
CI	**Overall**	0.009962	0.007827	0	0.0434	1.0685	4.0758	N = 368

Source: Author's computation (2023)

The mean in Table 2 represents the mean value for each data. The mean of RI (0.080) is the highest amongst the indicators of FD and this signifies that on average FD occurs more in local government share of total revenue in the state. The standard deviation is a measure of how dispersed the data is in relation to the mean and the values in Table 2 suggest that the data on the independent variables are spread out. Skewness quantifies the degree of asymmetry in the series and kurtosis measures its peak or flatness. Observing the data in Table 2 shows that all the variables are skewed to the right and the majority of them are leptokurtic since they have values higher than three. In order to address the positive skew and leptokurtic nature of majority of the variables in this analysis, a letter value test is performed on all the variables. The letter-value test is based on a systematic observation of outliers and the results showed that the maximum and minimum values for all the variables used in this analysis fall within the recommended fence for them to yield the same results as a normally distributed variable.

Table 3*: Unit Root Test*

Im -Pesaran Shin Unit Root Test		
Variable	Test Statistic	P Value
IGR	-10.7369	0.0000
PED	-2.4610	0.0069
PEM	-3.8713	0.0001
COR	-7.6484	0.0000
CEX	-6.3764	0.0000
RI	-8.3029	0.0000
EI	-6.2563	0.0000
AI	-4.8535	0.0000
CI	-6.7513	0.0000

Source: Author's computation (2023)

Table 4: Correlation Matrix

Variables	IGR	PED	PEM	COR	CEX	APC	RI	EI	AI	CI
IGR	1.0000									
PED	-0.1608	1.0000								
PED	-0.1005	0.5842	1.0000							
COR	0.0000	-0.1321	-0.1273	1.0000						
CEX	0.0590	-0.2262	0.0297	0.0791	1.0000					
APC	-0.0790	0.1463	0.1058	-0.2393	-0.2181	1.0000				
RI	0.0418	-0.0326	0.0900	-0.2049	-0.0966	0.3070	1.0000			
EI	0.0667	-0.2804	-0.2479	0.0897	0.2129	-0.3667	0.1680	1.0000		
AI	0.4906	-0.2760	-0.2052	0.2153	0.1308	-0.4328	-0.1212	0.1887	1.0000	
CI	0.1506	-0.3909	-0.2031	0.1904	0.6162	-0.5872	-0.1651	0.6288	0.3232	1.0000

Source: Author's computation (2023)

Table 5: Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
CI	4.22	0.236925
EI	2.16	0.463673
APC	1.97	0.506834
CEX	1.93	0.518270
PED	1.86	0.537641
PEM	1.70	0.589855
RI	1.37	0.731553
AI	1.33	0.754388
COR	1.11	0.899251
Mean VIF	1.96	

Source: Author's computation (2023)

Im -Pesaran Shin Unit Root Test checks if the variables are stationary. Under the null hypothesis all panels contain a unit root and the alternative hypothesis is that at least one panel is stationary. Table 3 shows that the null hypotheses are rejected at a P value of 0.00%, signifying that all the variables are stationary at levels. The collinearity diagnostics in Tables 4 and 5 show a relatively low correlation between the independent variables and FD indicators. Following the rule of thumb of VIF being less than 5 and the correlation between two variables being less than 0.70, the independent variables show no serious problem of multicollinearity.

Table 6: Estimated Regression Results

	Model 1	Model 2	Model 3	
Variables	**FE with Driscoll Kray Standard Errors**	**Pooled OLS with Panel Corrected Standard Errors (PCSE)**	**ARDL Model**	
			Short Run	**Long Run**
RI	2017.5800 (1899.35)	2539.93* (1447.78)	288.0050 (946.0767)	-71.9871
EI	-3097.9300 (2440.73)	−2919.75* (1636.46)	1274.7580 (1015.948)	-462.4851
AI	3367.5600*** (477.41)	2333.16*** (407.26)	3960.2960*** (595.2737)	123.6145
CI	1586.1400 (1659.63)	1074.69 (979.48)	175.138 (816.3707)	823.8901**
PED	-0.0048 (0.0073)	-0.0017 (0.0074)	-	-
PEM	0.0191** (0.0080)	-0.0008 (0.0084)	-	-
COR	−0.6031* (0.3276)	-0.3993 (0.3231)	-	-
CEX	0.0003 (0.0103)	-0.0027 (0.0097)	-	-
APC	48.1931*** (12.4412)	33.8970*** (12.7976)	-	-
ECT	-	-	−1.0646*** (0.0530)	

Observations	368	368	345
R^2	0.22	0.17	
Period	16	16	15
Panels	23	23	23

Standard Errors are in parentheses.
P – value: *** P<0.01 ** P<0.05 * P<0.1
Dependent Variable: Internally Generated Revenue (*IGR*)

Model 1 is estimated using fixed effects with Driscoll Kray standard errors that are robust to groupwise heteroskedasticity, serial correlation and cross-sectional dependence. The results show that *AI* has a strong beneficial impact on economic growth that is statistically significant at the 1% level. The coefficient of *AI* shows that one naira increase in *AI* will lead to an increase in internally generated revenue by approximately 3368 naira. This result is in line with Ewetan et al. (2016), and it corroborates the idea that local governments are sufficiently equipped to identify "productive" expenditures that foster economic growth. However, with p-values of more than 10%, the coefficients of *EI*, *RI* and *CI* which are measures of expenditure, revenue and capital decentralization respectively in Model 1 are all statistically insignificant.

Model 2 is estimated using pooled ordinary least squares with panel-corrected standard errors to address the issues of groupwise heteroskedasticity, serial correlation and cross-sectional dependence. This model lays emphasis on the average variation across panels and is appropriate for investigating the average effect of effect FD on economic growth across local government areas. The coefficients of *RI* and *AI* are both positively and significantly related to IGR at the 1% level. All things being equal, one naira increase in *RI* will approximately lead to a 2540 naira increase in IGR and one naira increase in *AI* will approximately lead to a 2333 naira increase in IGR. However, *EI* is negatively and significantly correlated with IGR as one naira increase in *EI* will lead to a 2920 naira decrease in *IGR*. With a p-value of more than 10%, the Coefficient of *CI* is statistically insignificant. The negative effect of *EI* can be attributed to the fact that the State government occasionally use Local governments as administrative spending units where expenditures of the local governments do not reflect their economic policies but that of the State government (Koledoye, 2017).

Model 3 is estimated using autoregressive distributed lag model (ARDL) to determine the short and long run effect of FD on economic growth. The Error Correction Term (ECT) in model 3 shows that there is long run cointegration amongst the variables in the panel and this relationship is statistically significant at the 1% level. The results in model 3 show that AI is positively and significantly related to IGR in the short run. That is, one naira increase in *AI* will approximately lead to a 3961 naira increase in *IGR* all things being equal. Conversely, with p-values more than 10%, the coefficients of *RI*, *EI*, and *CI* are all statistically insignificant in the short run. The results in model 3 also showed that only *CI* is statistically and positively related to *IGR* in the long run while the other measures of FD were statistically insignificant with p-values higher than 10%. The result in model 3 shows that, in the long run, one naira increase in *CI* will approximately lead to an 824 naira increase in *IGR* all things being equal. The strong positive relationship between the capital indicator (*CI*) and the internally generated revenue of local governments in the long run demonstrates that local governments are more aware of the infrastructural deficits within their localities compared to the state government.

Table 7: Post Estimation Tests

Tests	Type	Chi-Square/F-Stats	P-Value
Groupwise Heteroskedasticity	Wald Test	159.90	0.0000
Serial Correlation	Wooldridge Panel Data Test	8.9120	0.0068
Cross Sectional Dependence	Pesaran Test	2.5630	0.0104
Misspecification	Ramsey RESET TEST	0.11	0.7400

Source: Author's computation (2023)

The tests in Table 5 ensure that the estimates do not violate OLS assumptions. Wald's test (Baum, 2006) is performed to test the presence of group-wise heterogeneity using the squared residuals in regressions. The null hypothesis states that there is no heteroscedasticity in the residuals. We reject the null hypothesis and conclude that the model suffers from groupwise heteroskedasticity because the Wald test has a probability

value of 0. The Wooldridge Panel data Test is performed to test the presence of autocorrelation. The null hypothesis states no serial correlation exists in the residuals and is strongly rejected with a p-value of 0.006. This led to the conclusion that there is Serial correlation in the model. Another important test performed is the Pesaran test of cross-sectional dependence. The null hypothesis of the cross-section units being independent is strongly rejected with a p-value of 0. 0104. To test if the models are correctly specified, a RESET test is performed. This test yielded a P-value of 0.74 and we failed to reject the null hypothesis of a correctly specified form. The tests in Table 5 suggest that the model suffers from group-wise heteroskedasticity, serial correlation and cross-sectional dependence. Therefore, it is necessary to rely on standard errors which are simultaneously robust to autocorrelation, heteroscedasticity and cross-sectional dependence.

5.0 Conclusion and Recommendation

The study used panel data spanning from 2006 to 2021 to examine the effect of FD on economic growth in Nigeria. More specifically, four different measures of FD were utilized in three separate models used to assess the effect of FD on economic growth and each measure of FD was statistically significant in at least one model. However, it is worth noting that *EI* is the only measure that is significantly and negatively related to economic growth in at least one of the models while *AI* was positively and significantly related to economic growth across all models.

A possible explanation for why *EI* is negatively related to economic growth is that Local Governments are often used as administrative spending units where spending decisions reflect the policies of the state government regardless of the immediate needs of the local government area in question (Koledoye, 2017). On the other hand, the strong positive relationship between *AI* and economic growth across all models demonstrates the principal idea of FD, which is the economic gains that will be made from the efficient provision of public goods that are tailored to the immediate needs of the local government area in question.

Although the coefficients of *RI* and *CI* are positively and statistically significant in only one of the models respectively, important economic inferences can still be drawn from this. The significance of *RI* demonstrates that Local Governments are more efficient in generating revenue both for the state and for themselves within their jurisdiction and the significance of *CI* shows that local governments are more in tune with the infrastructural needs of the citizens in their jurisdiction compared to the state government.

Based on the findings, it is recommended that Kaduna state government adhere to the stipulations of the 1999 constitution by recognizing the authority of local governments to govern their various jurisdictions autonomously without interference or restrictions of any form. The coefficients of *RI*, *CI* and most especially *AI* show that FD has a positive relationship with economic growth when local governments are allowed to carry out grassroots functions and use their proximity to the people to tailor the delivery of public goods that will meet their immediate needs. In cases where FD is executed in a pseudo

manner, its impact on economic growth will be negative or insignificant as demonstrated by the coefficient of *EI*. As such, the State government is encouraged to promote "true" FD by assigning more regional fiscal responsibilities to Local governments.

References

Atan, J. A., & Esu, G. E. (2021). Fiscal Decentralization and Economic Growth in Nigeria: New Evidences. *Growth*, 7(13), 64.

Amaegberi, M. A., & Nsikhe, O. A. (2020). The impact of fiscal decentralization on economic growth of Bayelsa and Delta State in south-south geopolitical zone in Nigeria. *Academic Journal of Current Research, 7*(1), 50–67.

Barro, R. J. (1990). Government spending in a simple model of endogenous growth. *Journal of Political Economy*, *98*(5, Part 2), S103–S125.

Baum, C. F. (2006). *An introduction to modern econometrics using Stata*. Stata press.

Bello, D. M. F. (2013). State/local government joint account and the challenges of service delivery in Kaduna State (1999-2007). *International Journal of Social Sciences and Humanities Reviews*, *4*(1), 254-262.

Davoodi, H., & Zou, H. (1998). Fiscal Decentralization and economic growth: A cross-country study. *Journal of Urban Economics*, *43*(2), 244–257.

Eniekezimene, A. F. (2021). *FD and Macroeconomic Outcomes in Nigeria*. URL: http://ijmra.in/v4i5/Doc/24.pdf [Accessed on 08 April 2023].

Ewetan, O. O., Ige, C. S., & Ike, D. N. (2016). Fiscal decentralization and economic growth in Nigeria: A multivariate co-integration approach. *Journal of Sustainable Development Studies*, *9*(2).

Koledoye, B. O. (2017). Achieving Good Governance and Development in Nigeria Through Decentralization: A Case Study of Ondo State.

Oates, W. E. (1972). Fiscal federalism. Book

Okonkwo, O. N., & Godslove, E. K. (2015). Fiscal decentralization and Nigerian macroeconomic performance and economic stability. *International Journal of Economics and Finance*, *7*(2), 113–121.

Okonta, P. O., & Nwankwo, C. E. (2023). Rising Poverty Incidence and Macroeconomic Policy In Nigeria: An Empirical Investigation. *University of Nigeria Journal of Political Economy*, *13*(1).

Philip, A. T., & Isah, S. (2012). An analysis of the effect of FD on economic growth in Nigeria. *International Journal of Humanities and Social Science*, *2*(8), 141–149.

Solow, R. M. (1956). A contribution to the theory of economic growth. *The quarterly journal of economics*, *70*(1), 65-94.