Fiscal Decentralization and Economic Growth in Nigeria

TAIWO, Abayomi Samuel[1] BARUWA, Oluwatosin Yewande[2] ALABI, Adesola Olalere[3]

Department of Economics, College of Social and Management Sciences, Tai Solarin Federal University of Education, Ijagun, Ogun State, Nigeria.

*Corresponding Author: adesolaolalere91@gmail.com

ABSTRACT

Fiscal decentralization has been widely advocated as a mechanism for improving resource allocation, promoting efficient service delivery, and stimulating economic growth through increased fiscal autonomy at the subnational level. However, concerns remain regarding the effectiveness of decentralized fiscal arrangements in achieving these objectives in Nigeria due to governance and institutional challenges. Against this backdrop, this study examined the relationship between fiscal decentralization and economic growth in Nigeria. Specifically, the study investigated the effects of fiscal decentralization expenditure, fiscal decentralization revenue, retained profit, labour force, and capital formation on economic growth, measured by the Gross Domestic Product Growth Rate (GDPGR). The study employed a quantitative research design using annual time-series data spanning from 1999 to 2025. The Autoregressive Distributed Lag (ARDL) model was employed for estimation, and the findings revealed that fiscal decentralization expenditure and fiscal decentralization revenue exerted negative and significant effects on economic growth. Retained profit had a positive and significant effect on economic growth, while capital formation and labour force exhibited positive but insignificant effects. The ARDL bounds test confirmed the existence of a long-run relationship among the variables. The study concluded that fiscal decentralization has not effectively translated into economic growth in Nigeria due to inefficiencies in resource management and weak institutional structures. The study recommends strengthening fiscal accountability, transparency, and efficient resource management at the state and local government levels to reverse the adverse growth effects of fiscal decentralization expenditure and revenue. Subnational revenues and expenditures should be channeled towards productive and growth-enhancing investments.

Keywords: Capital Formation, Economic Growth, Fiscal Decentralization Expenditure, Fiscal Decentralization Revenue, and Labour Force.

Introduction

Economic growth remains one of the key indicators used to assess national development and societal progress. It reflects a sustained increase in the level of economic activities and productive capacity of a country, with the broader aim of advancing development (Nkoro & Otto, 2023). In practical terms, economic growth involves an increase in national output and income, which can be supported through the attainment of key macroeconomic objectives, including efficient fiscal decentralization, sound economic management, and the effective allocation of resources among the federal, state, and local governments in Nigeria (Onwioduokit & Onwuneme, 2023). Countries across the world pursue economic growth as a means of improving the living standards of their citizens, reducing unemployment and poverty, and strengthening industrial productivity. The experiences of advanced economies such as the United States, China, Japan, France, the United Kingdom, and Germany illustrate how sustained economic growth can support technological innovation, infrastructure development, and greater competitiveness in the global economy.

In developing countries, particularly across Africa, economic growth is widely seen as an important route to economic transformation and sustainable development. Kuznets (1971) described economic growth as a sustained increase in a country's capacity to provide an increasingly diverse range of economic goods, reflecting a continuous rise in real output or real income available to the population over time. In Nigeria, achieving meaningful economic growth has remained a major policy priority, especially in the face of persistent unemployment, inflation, widespread poverty, and the country's heavy dependence on crude oil revenue. These economic challenges have continued to raise concerns about the effectiveness of resource management and the structure through which public resources are distributed across different levels of government. It was within this context that the idea of fiscal federalism gained prominence as an approach to improving resource allocation and supporting economic growth.

Fiscal federalism is a concept that shows the financial relationships between different levels of government in a federal system i.e. financial relationship between the national, state, and local governments. It pertains to the allocation of revenue, taxation powers, and expenditure responsibilities between these various levels of governance (Sunday & Tush, 2025). In countries with a federal system, like Nigeria, fiscal federalism plays a pivotal role in shaping economic growth through determining how resources are shared, distributed, and utilized among the various sub-national units of government (Ochinyabo, 2024). It is particularly important mostly in a country like Nigeria, where a large and diverse population is spread across a vast territory with varying economic needs and disparities which gives room for allocation of resources to the grassroot to meet their special needs.

Nigeria practices fiscal decentralization and over the years, the federating units and tiers of government have shared huge amounts of resources for the purposes of meeting expenditure responsibilities. It has a unique historical and socio-political context in the country with Nigeria’s federal structure emerged after its colonial experience, wherein the British government established regional governments that later became the foundation for the current federal system. The country’s federal system was formalized in the 1954 Lyttleton Constitution, which divided the country into regions that were later reorganized into states following the country’s independence. This structure laid the groundwork for a fiscal federal system that has evolved over time and the

Nigerian federal government controls a significant portion of the country's resources, with the central government overseeing major sectors such as oil and gas, which are the main contributors to the national economy (Nteegah, 2023).

Currently, statistically evidence shows that the federal government receives 52.68%, state governments receive 26.72%, while local governments receive 20.60% of the federation account, excluding the 13% derivation fund allocated to oil-producing states (Raji, 2023). This formula reflects the vertical revenue-sharing arrangement designed to promote administrative efficiency and national development. All these are also to promote an effective fiscal federal system in Nigeria, ensuring that each state or local government have the financial capacity and autonomy to address local issues and implement policies that stimulate economic growth (Sunday & Tush, 2025). For example, a state government like Lagos and Local government like Ikeja with the authority to raise its revenue through taxes or levies and manage public spending can tailor its policies to suit the unique needs of its citizens.

As Nigeria continues to pursue sustainable economic growth, understanding the dynamics of fiscal federalism has become increasingly important for designing policies that promote balanced development and address persistent socio-economic disparities. Against this background, this study is motivated by the need to establish the relationship between fiscal decentralization and economic growth in Nigeria, with particular attention to how decentralized fiscal activities translate into broader economic performance. The study covers the period from 1999 to 2025, a timeframe considered appropriate because it captures Nigeria's return to democratic governance in 1999 and the subsequent fiscal reforms, changes in intergovernmental resource allocation, and evolving economic conditions under the current democratic dispensation.

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Economic Growth

Economic growth is a major indicator of economic performance often used to assess the effectiveness of economic policies like fiscal federalism in promoting national development. Nkoro and Otto (2023) believed economic growth is the sustained increase in a nation's productive capacity and aggregate output over time which result in improved income levels and living standards. Onwioduokit and Onwuneme (2023) viewed economic growth as the continuous expansion of economic activities that increase production, employment opportunities, and societal welfare. According to Biala and Amin (2024), economic growth refers to the rise in real income and output per person arising from efficient utilization of public resources and improved fiscal administration. Furthermore, Ichoku and Ugwuoke (2020) described economic growth as the enhancement of economic performance through increased productivity, efficient resource allocation, and institutional arrangements such as fiscal federalism. Economic growth is commonly measured using Real Gross Domestic Product (RGDP), Gross Domestic Product Growth Rate, and Real GDP per Capita.

2.1.2 Fiscal Decentralization

Fiscal decentralization involves the devolution of powers from the central government to local government. It is no more than increase in taxing and or spending responsibilities given to subnational government. Fiscal decentralization involves the financial relationships and distribution of fiscal responsibilities between different levels of government in a federal system (Sunday & Tush, 2025). It is a model that explain how resources, revenues, and expenditures are allocated among the central, state, and local governments to ensure effective governance and service delivery. In a federal structure like Nigeria's, fiscal federalism dictates how funds are generated, shared, and spent across different tiers of government while maintaining financial autonomy and intergovernmental coordination (Ochinyabo, 2024).

Fiscal decentralization gives access to symmetric information which allows matching of public expenditure to local preferences thereby enhancing allocative efficiency and by extension economic growth. Furthermore, fiscal federalism is designed to balance the economic needs of different regions within a country while ensuring that governance remains efficient at all levels. It recognizes that some functions are best handled by the central government, such as defense and monetary policy, while others, such as education, healthcare, and infrastructure, can be managed by state or local governments. The efficiency of fiscal federalism depends on a well-structured revenue allocation system that distributes resources equitably based on economic performance, population size, and development needs (Umeifekwem & Nwafor, 2024). Fiscal decentralization is measured through variables such as federal government revenue allocation, state government revenue allocation, local government revenue allocation, retained revenue, revenue decentralization, expenditure decentralization, and internally generated revenue.

2.1.3 Federal Government's Allocation

Federal government's allocation refers to the portion of central government in a federation unit. It represents the portion of national revenue retained and spent by the federal government (Sunday & Tush, 2025). This allocation is crucial for financing national policies, economic stabilization, security, infrastructure development, and other essential services that fall under the jurisdiction of the central government. The federal government's allocation typically comes from revenue sources such as taxes, oil revenues, foreign grants, and borrowing.

2.1.4 State Government's Allocation

State government's allocation is the share of national revenue allotted for the administration and development of state within a federal system (Olofin *et al.,* 2012). This allocation is derived from a combination of federally allocated funds, state-generated revenues, and financial grants. In Nigeria, state governments receive a portion of the revenue from the Federation Account, as well as internally generated revenue (IGR) from sources such as personal income taxes, business licenses, and land use charges with the main purpose to support economic and social development at the state level (Okon & Okon, 2021). These funds are utilized for infrastructure projects, education, healthcare services, agricultural development, and local economic initiatives (Konboye et al., 2018). Since state governments serve as intermediaries between the federal government and local governments, they play a vital role in ensuring effective public service delivery and regional development.

2.1.5 Local Government's Allocation

Local government's allocation is the financial resources transferred for the governance, administration, and development of local government areas (LGAs) within a federal system (Olofin *et al.,* 2012). These allocations come from federally distributed revenue, state government transfers, and locally generated revenue sources such as market taxes, property rates, and service charges. Local government allocations are essential for grassroots development, ensuring that essential services and infrastructure reach rural and semi-urban communities. In Nigeria, local governments receive their allocations from the Federation Account based on a constitutional revenue-sharing formula. These funds are meant to support local administration, education, primary healthcare, rural road construction, sanitation, and other community-focused services. As the government closest to the people, local governments are responsible for implementing policies that directly impact citizens' daily lives (Lawton & Macaulay, 2014).

2.2 Theoretical Review

This study reviews the following theories which are fiscal federalism theory and decentralization theorem**.** The Fiscal Federalism Theory was propounded by Richard Musgrave (1959) but later developed by Wallace Oates (1972) who explained the allocation of fiscal responsibilities among different levels of government. The theory assumes that governments at federal, state, and local levels can efficiently perform their assigned functions, possess adequate administrative capacity, and are accountable to the people. It also assumes that gross root governments have better knowledge of local needs and preferences than the central government. The theory is used in this study because it explains how the transfer of expenditure and revenue powers to lower levels of government can improve resource allocation, public service delivery, and economic performance.

The Decentralization Theorem was propounded by Wallace Oates in 1972 also compliment the above. The theory argues that the provision of public goods and services is more efficient when decisions are made by lower levels of government that are closer to the people. According to Oates, state and local governments possess better information about the preferences and needs of their residents than the central government. Therefore, fiscal decentralization allows subnational governments to allocate resources more efficiently, improve service delivery, and stimulate economic growth.

2.3 Empirical Literature

Several studies have been carried out on the relationship between fiscal decentralization and economic growth globally. Some empirical evidence outside Nigeria presents a mixed relationship between fiscal decentralization and economic growth. Song *et al.* (2022) employed static panel and Spatial Durbin models for 24 provinces and showed that fiscal decentralization produces uneven effects, as revenue decentralization constrained poverty reduction while expenditure decentralization enhanced it, with notable spatial spillovers across provinces. Evidence from China and India by Jin and Rider (2022), based on a two-step GMM simultaneous equation framework, further revealed that expenditure decentralization had no robust short-run growth effect but supported long-run growth in India, unlike China. Similarly, Sima *et al.* (2023), using cross-sectional data from 23 African and 23 OECD countries and applying 2SLS, GMM, and LIML techniques, found that both expenditure and revenue decentralization significantly improved per capita GDP, with relatively stronger effects in developing economies. Extending the debate to the subnational level, Dang *et al*. (2025) established a time-varying effect in Vietnam, where fiscal decentralization promoted provincial economic growth in the short run but became growth-reducing in the long run, alongside marked regional differences in the efficiency of decentralized resource use.

Evidence from Nigeria equally presents divergent views on the growth implications of fiscal decentralization. Ewetan *et al.* (2016), using a multivariate VAR framework and time-series data from 1970 to 2012, established a long-run relationship between fiscal decentralization and economic growth, with all three decentralization measures exerting positive and significant effects on growth and a unidirectional causal link running from fiscal decentralization to economic growth. Question and Eniekezimene (2021) extended the analysis to 1981–2019 using the ARDL technique and found that federal and state government expenditures significantly promoted economic growth, while local government expenditure produced no significant effect. However, Onwioduokit and Onwuneme (2023), through OLS and ECM estimation based on disaggregated fiscal data, found no direct growth effect of fiscal decentralization, arguing instead that its potential benefits depend on the efficiency of economic management and the quality of the decentralization process. In contrast, Nkoro and Otto (2023) applied the ARDL approach to annual data spanning 1981–2020 and reported that both revenue and expenditure decentralization positively and significantly enhanced economic development in the long run. In addition, Raji (2024) linked the persistent challenges of Nigerian fiscal federalism to revenue-sharing disputes and the financial dependence of subnational governments, stressing that greater control over resources by the federal and state governments could reduce tensions surrounding revenue allocation. Sunday and Tush (2025) employed ARDL and ECM techniques and found that federal allocations and the derivation fund supported economic growth, whereas allocations to state and local governments adversely affected growth, raising concerns about the productive use of decentralized fiscal resources. Recently, Olajire and Oladejo (2026), using Johansen cointegration, ECM, and Granger causality techniques for the period 1985–2024, established that revenue decentralization significantly promoted economic growth, while expenditure decentralization exerted a negative effect, with bidirectional causality between simultaneous decentralization and growth.

Existing studies have largely concentrated on the direct growth effects of revenue and expenditure decentralization, statutory allocations, and expenditures across different tiers of government, with findings remaining considerably mixed across countries and periods. While some studies reported positive growth effects, others established negative, insignificant, spatial, or time-varying outcomes, which suggests that the fiscal decentralization–growth relationship remains unresolved. In Nigeria, previous studies also largely relied on data periods that do not capture economic and fiscal developments up to 2025. This study therefore fills these gaps by examining fiscal decentralization expenditure and revenue together with retained profit, capital formation, and labour force over the period 1999 to 2025.

Methodology

A quantitative research design was used to determine the relationship between fiscal decentralization and economic growth in Nigeria. The study is anchored on the theory of fiscal federalism which explained the allocation of fiscal responsibilities among different levels of government. The theory assumes that governments at federal, state, and local levels can efficiently perform their assigned functions, possess adequate administrative capacity, and are accountable to the people. Fiscal Federalism Theory explains how government decentralization through expenditure and revenue assignments influence economic growth with the additional of labour and capital stock. The theory can be expressed through a simple economic growth function:

$$Y = f(K, L, G)$$

Where: Y is economic growth GDP, K is capital stock, L is labour force and G is government expenditure or revenue. Since fiscal decentralization affects government expenditure or revenue, government spending and revenue can be decomposed into federal, state, and local expenditures or revenue:

$$G = G_f + G_s + G_l$$

Where: G is government expenditure or revenue, G_f is federal government expenditure or revenue, G_s is state government expenditure or revenue $and\, G_l$ is local government expenditure or revenue Substituting into the growth function:

$$Y = f(K, L, G_f + G_s + G_l)$$

Model Specification

To achieve the objectives of the research which is to determine the relationship fiscal decentralization and economic growth in Nigeria, the study adapted model from the work of Ewetan *et al.* (2016) who worked on fiscal decentralization and economic growth in Nigeria: a multivariate co-integration approach.

The work stated that $Y_t = a_0 + a_1 FD_t + a_2 L_t + a_3 K_t + \mu_t$

To suit the objective of this work, the study modified the model

$$GDPGR_t = a_0 + a_1 FD_{Rt} + a_2 FD_{Xt} + a_3 RP_t + a_4 L_t + a_5 K_t + \mu_t$$

Where FD is fiscal decentralization $= \frac{G_s + G_l}{G_f + G_s + G_l} = \frac{Subnational\ revenue\ or\ expenditure}{total\ government\ revenue\ or\ expenditure}$

Where: $GDPGR_t$ is gross domestic product growth rate at a time, FD_{Rt} is fiscal decentralization revenue at a time, FD_{Xt} is fiscal decentralization expenditure at a time, RP_t is retained profit at a time, L_t is labour force at a time and K_t is capital formation at a time and revenue μ_t is error term, a_0 is intercept, a_1-a_5 is coefficients showing the magnitude and direction. This study utilised secondary data obtained from World Development Indicator (WDI), Central Bank of Nigeria (CBN) Statistical Bulletin and the National Bureau of Statistics (NBS) 1999 to 2025

4.0 Result and Discussion

Table 1: Descriptive Statistics

VARIABLES	GDPGR	FDX	FDR	LOGK	LOGL	LOGRP
Mean	5.107034	0.459908	0.412485	8.030847	18.18635	7.858940
Median	5.160246	0.476769	0.361000	8.299932	18.17560	8.067477
Maximum	11.90000	0.576054	0.842900	9.087168	18.54573	9.039327
Minimum	0.219560	0.194160	0.194900	6.021504	17.87287	6.392419
Std. Dev.	3.225326	0.085609	0.169527	0.794580	0.200592	0.740310
Skewness	0.299153	-1.100464	1.044838	-0.673240	0.151705	-0.637904
Kurtosis	2.263776	4.468486	3.130046	2.710153	1.884796	2.459600
Jarque-Bera	0.974995	7.583919	4.748965	2.055104	1.447050	2.079692
Probability	0.614161	0.022551	0.093063	0.357882	0.485039	0.353509
Sum	132.7829	11.95760	10.72460	208.8020	472.8451	204.3324
Sum Sq. Dev.	260.0682	0.183222	0.718485	15.78392	1.005931	13.70148
Observations	26	26	26	26	26	26

Source: Authors' Computation, 2026.

Table 1: The descriptive statistics show the distributional characteristics of the variables used in the study. Economic growth (GDPGR) recorded an average value of 5.11%, with a maximum value of 11.90% and a minimum value of 0.22%, indicating moderate growth fluctuations during the study period. Fiscal decentralization expenditure (FDX) had a mean value of 0.4599, while fiscal decentralization revenue (FDR) averaged 0.4125, suggesting a moderate degree of fiscal decentralization in Nigeria. Capital formation (LOGK), labour force (LOGL), and retained profit (LOGRP) recorded mean values of 8.03, 18.19, and 7.86 respectively. The standard deviations indicate that GDPGR exhibited the highest variability among the variables. The Jarque-Bera statistics reveal that GDPGR, LOGK, LOGL, and LOGRP are normally distributed since their probability values exceed 0.05. However, FDX is not normally distributed as its probability value of 0.0226 is below the 5% significance level.

Table 2: ADF Unit Root Test

Variables	Test	Statistic	Test of critical value		Prob.*	Stationary Remark	
GDPGR	ADF	-7.313958	1% level	-3.724070	0.0000	1(0)	Stationary at Levels
			5% level	-2.986225			
			10% level	-2.632604			
FD_R	ADF	-5.979571	1% level	-3.724070	0.0000	1(1)	Stationary at First Difference
			5% level	-2.986225			
			10% level	-2.632604			
FD_X	ADF	-8.482951	1% level	-3.724070	0.0000	1(1)	Stationary at First Difference
			5% level	-2.986225			
			10% level	-2.632604			
LOGK	ADF	-5.966900	1% level	-3.724070	0.0000	1(1)	Stationary at First Difference
			5% level	-2.986225			
			10% level	-2.632604			
LOGL	ADF	-3.576142	1% level	-3.724070	0.0140	1(1)	Stationary at First Difference
			5% level	-2.986225			
			10% level	-2.632604			
LOGRP	ADF	-5.773832	1% level	-3.724070	0.0001	1(1)	Stationary at First Difference
			5% level	-2.986225			
			10% level	-2.632604			

Source: Authors' Computation, 2026

Table 2 shows result of the unit root test using the Augmented Dickey-Fuller (ADF) test. The result shows that GDPGR is stationary at level I(0), as indicated by its ADF statistic of -7.313958 and probability value of 0.0000, which is significant at the 5% level. In contrast, FDR, FDX, LOGK, LOGL, and LOGRP became stationary only at first difference and are therefore integrated of order one I(1).

Table 3: Auto-Regressive Distributed Lag (ARDL) Result

Dependent Variable: GDPGR

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
GDPGR(-1)	-0.883959	0.137579	-6.425105	0.0002
FDX(-1)	-5.065943	1.623127	-3.121102	0.0142
FDR(-2)	-2.307610	2.655035	-3.467464	0.0085
K(-1)	0.000469	0.000291	1.611356	0.1458
L(-1)	3.722007	1.08E-06	0.345479	0.7386
RP	0.002079	0.000871	2.386564	0.0441
C	16.22402	12.96516	1.251355	0.2462

Source: Authors' Computation, 2026

Table 3 shows the ARDL estimation result reveals that the lagged value of economic growth, GDPGR(-1), has a negative and statistically significant effect on current economic growth, with a coefficient of -0.883959 and a probability value of 0.0002. This indicates that previous growth conditions significantly influence current growth adjustments. Fiscal decentralization expenditure, represented by FDX(-1), exerts a negative and significant impact on economic growth, as evidenced by its coefficient of -5.65943 and p-value of 0.0142. This suggests that an increase in expenditure decentralization may reduce economic growth in the short run, possibly due to inefficiencies in resource utilization at subnational levels. Similarly, fiscal decentralization revenue, FDR(-2), has a negative and significant effect on economic growth with a coefficient of -2.307610 and p-value of 0.0085, implying that revenue decentralization may adversely affect growth when not effectively managed. Capital formation, represented by K(-1), has a positive but statistically insignificant effect on economic growth, while labour force, L(-1), also exhibits a positive but insignificant influence. Retained profit (RP) has a positive and statistically significant effect on economic growth, with a coefficient of 0.002079 and a probability value of 0.0441. This indicates that increases in retained profit contribute positively to economic growth by enhancing investment and productive activities.

Table 4: ARDL Bound Test

Test Statistic	Value	k
F-statistic	21.67026	5
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Source: Authors' Computation, 2026

Table 4.4 shows the ARDL Bounds test was conducted to determine the existence of a long-run relationship among the variables. The result shows an F-statistic of 21.67026, which is substantially higher than the upper bound critical value of 4.68 at the 1% significance level. Since the computed F-statistic exceeds both the lower and upper bound critical values at all significance levels (10%, 5%, 2.5%, and 1%), the null hypothesis of no long-run relationship is rejected. This implies that fiscal decentralization expenditure, fiscal decentralization revenue, capital formation, labour force, retained profit, and economic growth move together in the long run. Therefore, a stable long-run equilibrium relationship exists among the variables in Nigeria.

Table 5: Estimation Technique

Test	Statistics	Value	Probability
Linearity	Ramsey RESET	0.5408	0.8182
Serial Correlation LM	Breusch-Godfrey	1.0975	0.2728
Heteroskedasticity	Breusch-Pagan-Godfrey	1.8790	0.2725
Normality	Jarque-Bera	13.6532	0.1210

Source: Authors' computation, 2026

The diagnostic test results in Table 5 confirm the adequacy and reliability of the estimated model. The Ramsey RESET test indicates that the model is correctly specified and linear, while the Breusch-Godfrey LM test reveals no evidence of serial correlation. Similarly, the Breusch-Pagan-Godfrey test confirms the absence of heteroskedasticity, and the Jarque-Bera probability value suggests that the residuals are normally distributed.

Discussion of findings

The findings of this study revealed that fiscal decentralization expenditure has a negative and significant effect on economic growth in Nigeria. This implies that an increase in expenditure decentralization reduces economic growth during the study period. The finding suggests that resources transferred to subnational governments may not have been efficiently utilized due to poor governance, corruption, weak institutional frameworks, and duplication of government functions. This result supports the findings of Sunday and Tush (2025) who found that allocations to state and local governments negatively affected economic growth in Nigeria. The result is also consistent with Olajire and Oladejo (2026) who reported that expenditure decentralization exerted a negative influence on economic growth. However, the finding contradicts Nkoro and Otto (2023), Question and Eniekezimene (2021), and Ewetan *et al*. (2016) who found that expenditure decentralization positively and significantly enhanced economic growth in Nigeria.

The result further revealed that fiscal decentralization revenue has a negative and significant effect on economic growth. This indicates that increased revenue decentralization has not translated into improved economic performance, possibly due to weak fiscal capacity and inefficient utilization of decentralized revenues by subnational governments. This finding is in agreement with Onwioduokit and Onwuneme (2023) who argued that fiscal decentralization does not directly stimulate economic growth unless accompanied by efficient economic management. However, the result opposes Olajire and Oladejo (2026) and Nkoro and Otto (2023) who reported a positive and significant relationship between revenue decentralization and economic growth.

The findings also showed that capital formation has a positive but statistically insignificant effect on economic growth. This suggests that although investment in capital stock contributes positively to economic activities, its impact was not sufficiently strong to significantly influence economic growth during the study period. Likewise, labour force exerted a positive but insignificant effect on economic growth, indicating that increases in labour supply alone may not guarantee economic growth without corresponding improvements in productivity, skills acquisition, and technological advancement. Furthermore, retained profit was found to have a positive and significant effect on economic growth. This implies that increases in retained earnings encourage investment expansion, business growth, and productive activities capable of stimulating economic growth. The finding aligns with economic theory, which posits that internally generated funds enhance firms' capacity to finance investment projects without relying excessively on external borrowing. The long-run cointegration among the variables is also in tandem with the work of Ewetan *et al.* (2016), Nkoro and Otto (2023), and Olajire and Oladejo (2026) who equally established a long-run relationship between fiscal decentralization and economic growth in Nigeria.

5.0 Conclusion

The study concludes that fiscal decentralization remains an important mechanism for promoting economic growth in Nigeria; however, its impact is not automatically growth-enhancing due to persistent institutional weaknesses, poor fiscal management, and inefficiencies in the utilization of decentralized resources. The negative and significant effects of fiscal decentralization expenditure and revenue suggest that the transfer of fiscal responsibilities and resources to subnational governments has not translated into improved economic performance as expected by fiscal federalism theory. While capital formation and labour force exhibited positive but insignificant contributions to growth, retained profit emerged as a significant driver of economic growth. Furthermore, the existence of a strong long-run relationship among the variables indicates that fiscal decentralization and economic growth are closely linked over time and possess the capacity to adjust toward long-run equilibrium. Therefore, achieving the growth benefits of fiscal decentralization in Nigeria requires a more integrated approach that emphasizes effective fiscal governance, prudent resource management, and enhanced subnational accountability.

Recommendations

In-line with the findings, the following recommendations were made:

i State and local governments should strengthen transparency and accountability mechanisms to ensure that public funds are utilized effectively for developmental projects that promote economic growth.

ii. The federal government should provide continuous capacity-building programmes for subnational governments to improve their financial management and administrative efficiency.

iii. State and local governments should allocate a larger proportion of their resources to productive sectors such as infrastructure, education, healthcare, and agriculture to stimulate human capital development through labour productivity.

iv. Government should create a business-friendly environment that encourages firms to reinvest retained profits into productive investments and expansion activities.

v. The revenue allocation formula should be reviewed to reward prudent financial management, internally generated revenue efforts, and measurable development performance among subnational governments.

vi. Policies that encourage the reinvestment of retained profits, improve capital formation, and enhance labour productivity should be prioritised to promote sustainable economic growth in Nigeria