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Fiscal Federalism and Economic Development in Nigeria

Dr. Lucky Anyike Lucky[1] & Dr. Briggs, Alasin Captain[2]

[1]Department of Finance, Faculty of Administration and Management, Ignatius Ajuru University of Education, Rumuolumeni Port Harcourt Rivers State, Nigeria.
[2]Chief Accountant, Rivers State Local Government Service Commission, Rivers State Secretariat Complex, Port Harcourt.

***Corresponding Author**: Dr. Lucky Anyike Lucky
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Abstract

This study investigated the relationship between fiscal federalism and economic development in Nigeria by employing indicators such as the Human Development Index (HDI), per capita income, gross national product (GNP), and poverty rate as dependent variables, while fiscal allocations to the federal, state, and local governments were used as explanatory variables. The analysis utilized the Ordinary Least Squares (OLS) regression technique to estimate the effects of fiscal allocations on these development indicators. The results from the first model revealed that federal government allocation exhibited a statistically significant negative relationship with HDI (coefficient = −3.047280; t = −6.209116; p = 0.0000), whereas allocations to state governments (coefficient = 1.203989; t = 3.419425; p = 0.0022) and local governments (coefficient = 0.395350; t = 2.058681; p = 0.0401) showed positive and statistically significant effects. In the second model examining per capita income, federal allocation (coefficient = 0.332232; t = 0.864598; p = 0.3966), state allocation (coefficient = 0.002188; t = 0.006754; p = 0.9947), and local government allocation (coefficient = −0.227970; t = −0.735240; p = 0.4700) were found to be statistically insignificant. The third model indicated that federal allocation had a statistically significant positive relationship with GNP (coefficient = 45.80752; t = 1.914556; p = 0.0381), while allocations to state governments (coefficient = −0.078067; t = −0.142657; p = 0.8878) and local governments (coefficient = −0.431816; t = −0.420242; p = 0.6782) did not demonstrate significant effects. Similarly, the fourth model examining poverty rate revealed that allocations to federal (coefficient = 0.154602; t = 0.636033; p = 0.5316), state (coefficient = −0.044231; t = −0.127716; p = 0.8996), and local governments (coefficient = 0.089542; t = 0.336924; p = 0.7395) were not statistically significant. Based on these findings, the study recommends reforms to the revenue-sharing formula within the federation account to allocate greater financial resources to state and local governments while strengthening mechanisms for the effective utilization of public funds. Furthermore, the establishment of a robust legal and institutional framework is necessary to ensure transparency, accountability, and improved economic development outcomes in Nigeria.

Keywords: *Fiscal Federalism, Economic Development, Federal Government Allocation, State Government Allocation, Local Government Allocation.*

INTRODUCTION

The main goal of economic development is to raise the standard of life in less developed nations by gathering and using both human and physical capital in the best way possible to get the most productive output after taking into account the expenses of these investments. In many developing economies, like Nigeria, people frequently think of economic activity as happening in two sectors: a traditional sector and a contemporary sector. Each sector uses different types of human and material resources to make things. In this structure, the workforce has sector-

specific human capital, and each member has the power to choose their level of education and the sector in which they work. In these kinds of institutions, labor earnings usually include two main parts: the payback or recovery of investments in human capital, such student loans or educational fees, and an economic rent that helps people buy things right now. To maximize welfare, resources must be allocated in such a manner that the rates of return on different types of capital are the same and labor is divided between sectors in such a way that labor rents are the same. This framework emphasizes the imperative of dismantling economic, social, and cultural barriers that hinder the mobility of resources and labor from a policy standpoint. The factors that affect economic growth in developing countries have been of great interest to economists and policymakers for a long time. This is especially true in Nigeria, where public policy has always focused on attaining sustainable development. This goal has traditionally been the reason for the creation of national development plans and rolling plans before and after independence. These plans were often followed by more government spending and borrowing money to cover the costs. The Human Development Index, quality of life metrics, life expectancy, and literacy rates are all common ways to quantify economic growth. These are all ways to see how people's lives are getting better. In theory, economic development is a change from a stable state to a new one that is transformative and discontinuous. This leads to changes in the economy's structures and institutions (Joseph Schumpeter, 1911). The significance of economic development resides in its ability to tackle structural issues commonly linked with underdeveloped economies, including pervasive poverty, both visible and concealed unemployment, underutilized natural resources, dualistic economic frameworks, insufficient capital accumulation, and technological obsolescence (Jhingan, 2005). The course of development is determined by a multitude of interconnected elements, such as the accessibility of natural resources, the pace of capital accumulation, capital-output dynamics, technical progress, entrepreneurial vigor, and conducive institutional structures.

Intergovernmental fiscal relations, often known as fiscal federalism, are the financial ties that exist between different levels of government under a federal political system. The idea is mostly about how to divide up tax obligations between the federal, state, and local governments. This includes things like who has the right to tax, how to raise money, and how to divide up money that is gathered centrally. In real life, fiscal federalism is about how the central government gives money to state and local governments through grants, allocations, or sharing of tax revenue. These systems decide who has the power to tax, how different levels of government keep their money, and how national resources are divided according to the Constitution. The principles and formulas that dictate how centrally generated revenue is divided among states and local governments make up what is commonly known as revenue allocation. This system is meant to fix problems with money that come up during economic growth (Ejeh & Orokpo, 2014). The connection between fiscal federalism and national growth is strongly rooted in a country's overall political economy. This is because fiscal arrangements typically show how a federal system is structured and how its institutions work.

In Nigeria, fiscal federalism has been characterized by ongoing disputes and political conflicts on revenue distribution and resource management. These conflicts are mostly caused by centrifugal forces in the federal system and worries about how fairly the three levels of government share fiscal duties and the power to collect revenue. One of the main problems is how to divide up government duties and tax authorities between the federal, state, and local levels. The Constitution of the Federal Republic of Nigeria 1999, specifically Part I, Section 4 of the Second Schedule, defines these duties. It lists three types of legislation: the exclusive legislative list, the concurrent legislative list, and the residual legislative list. The federal government has full control over things on the exclusive legislative list, and both the federal and state governments have some control over things on the concurrent legislative list (Aigbepue & Ainabor, 2011). The distribution of tax powers, which is an important part of this system of government, has stayed very steady over time, even while the military was in charge. Also, Section 162(1) and (2) of the 1999 Constitution sets forth the legal steps that must be taken to divide up the money in the distributable pool account among the three levels of government. However, this system has caused a number of problems, such as more political competition for federal resources, claims of corruption in public financial management, and repeated calls for the creation of more states that may not have enough money coming in from within their own borders. These structural problems have also made minority communities and parts of the economy outside of the oil industry, including agriculture, feel left out. This has made it harder to put policies in place that would promote long-term economic growth and development. In this context, the current study investigates the influence of fiscal federalism on Nigeria's economic development.

LITERATURE REVIEW

Fiscal Federalism

Tamuno Tekena (2000) says that federalism is a way of governing where different parts of a political body share power and responsibility through institutional

arrangements that allow for ethnic variety, cultural pluralism, and regional autonomy. In this context, fiscal federalism deals with how different levels of government share public sector duties and financial responsibilities. It centers on the distribution of expenditure responsibilities and fiscal tools, especially revenue generation and taxation authorities, across hierarchical levels of administration (Pat Utomi Ozo-Eson, 2005). In essence, fiscal federalism offers the conceptual and institutional frameworks that control the financial interactions between national and subnational governments (Abada, Omeh, Ovaga & Ugwuanyi, 2020). This is a branch of public sector economics that tries to figure out which government operations are best handled by centralized authorities and which are better handled by decentralized authorities. So, fiscal federalism is the way that the federal, state, and local governments share money and administrative duties in a federal system.

In a broader sense, federalism means that there are different levels of government in a single political state, each with its own spending responsibilities and powers to raise money. Fiscal federalism is a realistic way for the federal government to work, since it controls how different parts of the government interact with each other when it comes to the distribution of national revenues, the assignment of fiscal authority, and the division of administrative duties. But there are often differences between what subnational governments have to spend and how much money they can bring in. To fix these kinds of problems, higher levels of government usually give money to lower levels of government. These payments are often called equalization or balancing transfers. In Nigeria, the allocation of monies from the federation account has been one of the most controversial parts of how the government works together to handle money. In Nigeria, revenue allocation usually means the way that national income is divided up among the several levels of government in a way that is in line with the ideas of fiscal federalism. Because it is important for politics and the economy, the argument over income sharing has become a major issue in Nigeria's government, just like it has in other federal states (Abada et al., 2020).

There are a number of economic and political reasons why fiscal federalism is typically seen as a good idea. Many people think that decentralizing fiscal authority is a good way to encourage creativity, responsiveness, and efficiency in public sector governance, which in turn helps social and economic development as a whole. Fiscal decentralization gives subnational governments more freedom to make decisions, which lets them deliver public goods and services that better meet the needs and wants of the people who live there. Decentralization may also help ease ethnic tensions, separatist pressures, and political disputes by giving regions more say in how they are run. Researchers have contended that state and local governments are frequently more adept at tackling developmental issues due to their proximity to citizens and their comprehensive awareness of local socioeconomic contexts (Bojanic, 2018). Likewise, assessments like the Organisation for Economic Co-operation and Development economic outlook underscore that the realization of the seventeen Sustainable Development Goals necessitates efficient coordination and proactive engagement of subnational governments (Sachs et al., 2021). This increasing academic interest in the link between fiscal federalism and economic growth has led to a lot of empirical research. The decentralization theorem posited by Wallace Oates (1972) indicates that decentralized governance frameworks can improve the efficiency of public goods and services delivery by aligning resource distribution with citizen preferences (Scharpf, 1988). These efficiency gains ultimately lead to better welfare outcomes, which supports the idea that well-structured fiscal federal arrangements can be a key factor in economic growth and development.

Revenue allocation

In Nigeria, revenue allocation is the system that the federal government uses to divide the country's financial resources among the different levels of government. The main goals are to promote long-term economic growth, reduce tensions between governments, and strengthen national unity (Ola & Offiong, 1999). In practice, revenue allocation is the process of managing and distributing the money that the national economy makes to the federal, state, and local governments. Each of these governments has its own constitutional duties and rights when it comes to money (Oriakhi, 2004). Some sources of income are only for the federal government, while others are split amongst the different levels of government according to rules set out in the Constitution and the law. So, the way that revenue is divided up is intimately related to the country's political and fiscal system.

In this system, revenue allocation is based on a number of rules that are meant to make sure that it is fair, efficient, and stable for the economy. These principles usually involve equalization procedures, incentive-based allocations, and balancing transfers. When the spending responsibilities of subnational governments are greater than their ability to raise money, balancing transfers are meant to fix the problem. These transfers make up for the fact that state and municipal governments don't have as much ability to tax as they would like. Equalization transfers, on the other hand, are meant to make sure that all regions have the same amount of money to spend by giving money to areas with weaker fiscal underpinnings. This way, taxes won't be too high and development will be more fair. The federal government also uses incentive-based or promotional

transfers, which are often called grants-in-aid, to boost economic activity or support certain developmental projects in certain sectors or areas (Ola & Offiong, 1999). Through these procedures, resource allocation functions as both a fiscal management tool and a policy instrument to promote balanced development and enhance the federal system.

Principle of Derivation

The derivation concept is still one of the most controversial parts of Nigeria's system for dividing up its resources. People in different parts of the country have quite diverse ideas about what it means since people often focus on points of view that are in line with their political and economic interests. People who support this idea say that states with more natural resources or the ability to make more money should have a bigger portion of the national revenue. This perspective asserts that a designated percentage of federally collected revenue ought to be redistributed to the states of origin of the resources. Most of the people who support the derivation principle are from the Niger Delta. They say that local communities should be fairly compensated for the environmental damage and social problems caused by decades of oil exploration and extraction. On the other hand, critics, especially those from areas that don't produce oil, say that natural resources belong to the whole federation and should be managed by the Federal Government of Nigeria. From this point of view, the money made from these resources should be shared in a way that shows national ownership instead than regional entitlement. The differences between these two opposing views have made the debates over resource control and fiscal equity even more heated. The government's perceived unwillingness to fully address the concerns of affected communities has kept the derivation principle a source of political and fiscal conflict in Nigeria's federal system.

Even Development Principle: The principle of even development is premised on the objective of promoting balanced economic growth across all regions of the federation in order to reduce disparities and developmental imbalances. Allocation based on this principle emphasizes equity, ensuring that financial resources are distributed in a manner that addresses uneven levels of development among states. The underlying rationale is that allocating revenue strictly on an equal basis may inadvertently widen existing developmental gaps, as less developed regions often require greater financial support to overcome structural disadvantages. Therefore, this principle advocates targeted allocation to regions with greater developmental needs in order to foster inclusive growth and regional equity.

Principle of Need: The principle of need focuses on the developmental requirements of individual states as the primary basis for revenue allocation. According to this principle, financial resources should be distributed according to the specific needs of each government unit, particularly in relation to infrastructure provision, public services, and social development. Ideally, this principle would operate effectively if assessments of need were grounded in reliable indicators such as population data and verified developmental indices. However, in Nigeria the application of this principle has been complicated by the politicization of population censuses and the absence of universally accepted criteria for determining relative state needs.

Principle of Population: The population principle proposes that revenue distribution should be determined largely by the population size of each state. In theory, this approach assumes that states with larger populations require greater financial resources to provide public services and infrastructure for their residents. However, debates have emerged regarding the appropriateness of this principle, as some scholars argue that densely populated regions often possess greater human and economic resources and therefore may not necessarily require proportionally larger allocations. Furthermore, the reliability of population statistics has been questioned, particularly following controversies surrounding past census exercises such as the 1991 census, thereby weakening confidence in population as a consistent criterion for revenue allocation.

Internal Revenue Effort: This principle emphasizes the fiscal capacity of states to generate revenue internally. Under this framework, states that demonstrate stronger internal revenue generation are considered more capable of effectively utilizing additional federal allocations. The implication is that higher internally generated revenue may increase a state's eligibility for greater fiscal transfers. However, this approach has generated considerable debate, particularly among states with weaker economic bases that lack the structural capacity to generate significant internal revenue. In response to such concerns, successive revenue allocation review bodies—including the Okigbo Commission—revised earlier recommendations of the Aboyade Committee, with further modifications later introduced by the Danjuma Commission and subsequently adjusted by the Armed Forces Ruling Council, which progressively reduced the weight assigned to internal revenue effort in the revenue allocation formula.

Landmass and Difficult Terrain: Introduced in January 1990, the landmass and difficult terrain principle recognizes the additional costs associated with providing infrastructure and public services in geographically challenging environments. States characterized by large land areas, mountainous terrain, or difficult ecological conditions often face higher development and

infrastructural costs. Consequently, this principle proposes that such states receive higher revenue allocations to offset the financial burdens associated with development projects, including the construction of transportation networks, bridges, and other essential infrastructure.

Equality of States: The equality of states principle asserts that all states within a federal system should receive an equal share of a specified portion of national revenue regardless of their size, population, or resource endowment. This approach reflects the constitutional recognition of each state as an equal unit within the federation. By ensuring a baseline allocation for every state, the principle reinforces political equality and affirms the institutional significance of each federating unit within the federal structure.

Minimum National Standards: The principle of minimum national standards emphasizes the need to maintain a baseline level of public service provision across all states in critical sectors such as education, healthcare, agriculture, and infrastructure. Revenue allocation guided by this principle seeks to ensure that essential services across the federation do not fall below a nationally defined standard. By supporting weaker regions in meeting these benchmarks, this principle contributes to reducing social inequalities and promoting national cohesion.

Absorptive Capacity: The absorptive capacity principle evaluates the ability of individual states to effectively utilize allocated funds. According to this principle, greater financial resources should be directed toward states that demonstrate stronger capacity to implement development projects and manage public funds efficiently. This capacity is typically measured through indicators such as the ratio of actual capital expenditure to planned capital expenditure over a specified period. States with higher utilization rates are therefore considered better positioned to absorb and effectively deploy additional financial resources.

Minimum Responsibility of Government: This principle acknowledges that each tier of government possesses constitutionally defined responsibilities that must be fulfilled regardless of financial constraints. Consequently, revenue allocation must ensure that governments have sufficient resources to meet these minimum obligations and provide essential public services to citizens. The principle is therefore equity-oriented and reinforces the need for fiscal transfers that support the effective performance of governmental duties at all administrative levels.

Social Development Factors: The social development principle highlights the importance of allocating resources in ways that promote improvements in key social indicators such as healthcare access, educational attainment, and urban development. Indicators such as primary school enrollment rates are often used as measures of social progress and developmental needs. Given that education and human capital development are central policy priorities in most countries, including Nigeria, this principle underscores the role of fiscal allocation in supporting long-term social and economic development.

Development of Nigeria's Revenue Allocation and Generation

Since colonial times, Nigeria has been very interested in fiscal federalism and how to divide up tax money. Many commissions, laws, and court cases have tried to set rules for how the federating units should handle their money. Even with these attempts, arguments on how to split up resources and share earnings are still a big part of Nigeria's political and economic discussions. Kalu Kalu (2011) says that between 1948 and 2012, the growth of fiscal federalism in Nigeria included a number of changes to institutions, such as two Supreme Court decisions, new laws, military orders, and the creation of several commissions to redefine how money is shared within the federation. In this democratic age, these disputes have become more heated, especially about how to divide revenue between the federal government and the states (vertical allocation) and how to divide revenue among the states themselves (horizontal allocation). Nigeria's fiscal federal system has changed over time, going through many stages. The first phase (1948–1952) was marked by a more centralized fiscal system in which regional governments got extra money from the central government, mostly based on the derivation principle. The second phase (1952–1954) gave regional governments more control over their finances by giving them their own tax powers and putting the derivation principle into action when distributing money collected by the central government. These characteristics persisted during the third phase (1954–1959), wherein derivation continued to be a primary factor for revenue allocation. During this time, areas with strong export goods, like cotton in the North and cocoa in the West, did very well under the system. On the other hand, the East Region did not do as well because international demand for palm oil was falling.

The fourth phase came about during the political period after Nigeria gained independence, from 1960 to 1966. It is still important in defining Nigeria's current fiscal federal framework. At this point, the focus on regional budgetary autonomy was lessened in order to make the central government's finances more stable. The constitutions of 1960 and 1963 said that 50% of the money made from minerals must go to the areas where they are mined. This time also saw the creation of the Distributable Pool Account, which was the first version of the present Federation Account. The federal government collected taxes and then gave them back to the regions based on things like the necessity for government services to

continue, the minimum obligations of the government, the requirements of the population, and balanced regional development (Kalu, 2011). The fifth phase, which started in 1966 under the military administration, was different. It was characterized by more fiscal centralization as the federal government took control of national resources. During the Nigerian Civil War, military governments used a centralized command structure that affected how money was handled. They often used the idea of national unity to support more federal power. Adding more states and changing the borders between regions made it even easier for the federal government to manage sources of income. Kalu says that consecutive military decrees moved a lot of tax and budgetary authorities from state governments to the federal center. This made what has been called a "predatory center" even stronger. Parts of this centralized fiscal ideology were eventually added to the Constitution of the Federal Republic of Nigeria 1999, which made it hard for successive democratic governments to change the tendency of fiscal centralization.

Over the years, a number of commissions and committees have been set up to come up with fair ways to divide up money and settle ongoing budgetary disagreements. Some of the more important ones were the Phillipson Commission, the Hicks-Phillipson Commission, the Chicks Commission, the Raisman Commission, the Binns Commission, the Dina Interim Revenue Allocation Committee, the Aboyade Technical Committee, the Okigbo Presidential Commission, and the Danjuma Fiscal Commission. These groups did a lot to suggest ways to share money, however most of them were just transitory and stopped working after they made their suggestions. The growing complexity of fiscal ties between governments, especially after the introduction of new states and local government areas, made it necessary to set up a permanent body to manage the distribution of revenue. As a result, the Revenue Mobilization Allocation and Fiscal Commission was established by Decree No. 49 of 1989 and then strengthened by Decree No. 98 of 1993, which is today known as the RMAFC Act Cap. R7 Laws of the Federation of Nigeria, 2004. The 1999 Constitution, Section 153(1), later recognized the commission as one of Nigeria's most important federal executive organizations in charge of regulating budgetary relations. Adebayo Babalola (2015) says that the commission was set up as one of fourteen federal institutions to make Nigeria's democratic government more accountable and balanced.

The vertical and horizontal allocation formulas are the two main ways that Nigeria divides its money. The vertical formula tells the federal, state, and local governments how to split national resources. The horizontal formula tells the states and local governments how to distribute their own monies. Several colonial commissions were very important in creating these allocation structures, especially before independence, when fiscal agreements were made to share money that came mostly from import tariffs and other colonial economic activity. These early institutional initiatives set the stage for today's discussions in Nigeria's federal system over who should control resources, how to decentralize taxes, and how to fairly share tax money.

Human Capital Development

Human capital is the whole amount of information, skills, habits, and personal traits that make a person more able to do productive work and create economic value. It includes the combined skills, talents, education, experience, intelligence, and judgment of people in a society (Atoyebi, Olalaye, Ishola, Adekunjo & Kadiri, 2013). In economic terms, human capital is the skills and abilities that a country's workers have. Human capital development is the ongoing process of improving these skills and abilities through education, training, and gaining relevant experience that is needed for economic growth and development (Adebayo Okojie, 2014). Scholars like Ebere Ejere (2011) stress that human capital is the human part of the production process. This sets it apart from other production factors because people can learn, adapt, come up with new ideas, and make things (Boztosun, Aksoylu & Ulucak, 2016). As a result, efforts to boost knowledge, skills, productivity, and creativity are often seen as important parts of developing human capital (Tende, 2011). These kinds of programs often include spending money on education, job training, career growth, and good management of people (Robbins & Judge, 2013; Mainoma, 2013). Kenneth Ogujiuba (2013) says that developing human capital is important for a country's social and economic progress. This includes important areas like education, healthcare, labor, employment, and gender development. Investing in these areas makes sure that a country's workers are knowledgeable, competent, healthy, and productive. This lets other economic resources be used more efficiently to encourage long-term progress. From this point of view, it can be concluded that no country can make real economic success without a skilled and well-trained workforce that can use the resources it has to help the country grow.

Empirical Review

Numerous empirical investigations have analyzed the correlation among fiscal policy, fiscal federalism, and economic development in Nigeria and other federal systems. For example, Agu Agu, Idike Adeline, Okwor Ifeanyi, and Ugwunta David (2014) used the Ordinary Least Squares (OLS) method to look at how different parts of Nigeria's fiscal policies affected the economy over a long period of time. Their results showed that government

spending has always gone up together with government income, although spending has grown faster than income. The research additionally indicated that capital investment expenditures are markedly inferior to recurrent expenditures, highlighting structural deficiencies that hinder economic growth, despite the finding that government expenditure on economic services correlates positively with economic growth. Osuala Anthony and Ebieri Kingsley (2014) analyzed the correlation between fiscal policy and economic growth in Nigeria from 1986 to 2010, employing a multivariate regression model generated by OLS. The findings demonstrated a long-term equilibrium relationship between fiscal policy and economic growth throughout the research period. Paolo Liberati (2022) examined fiscal federalism and national health standards in Italy, with a particular emphasis on redistributive processes, extending beyond Nigeria. The research presented a comprehensive analysis of the development of Italy's healthcare finance system and contended that fiscal federalism in the health sector can obscure trends toward healthcare privatization.

Other research has concentrated on the unique functions of fiscal decentralization and subnational government finance in fostering socioeconomic growth. Ibok Ekpenyong (2020) examined the budgetary structure of local governments and its correlation with socioeconomic development in Nigeria through a poll of 600 respondents from the country's six geopolitical zones. The study determined that enhanced fiscal autonomy ought to be conferred upon local governments to bolster their ability to produce supplementary revenue via local taxation methods. Amaefule Chinedu and Nwaimo Chukwuemeka (2021) conducted a parallel study examining the influence of Nigeria's fiscal framework on socioeconomic wellbeing within the context of democratic administration, utilizing the Human Development Index (HDI) as an indicator of welfare. Using a Vector Error Correction Model (VECM), they found that federal government allocations did not have a major impact on HDI, while state government allocations did have a major negative impact on HDI. On the other hand, funding for local governments had a big positive influence on human development, which suggests that local government institutions may be better at enhancing the welfare of their residents. The study therefore recommended reducing the fiscal responsibilities concentrated at the federal level and reallocating greater authority and resources to local governments, which are closer to the populace.

Amire Adebayo and Okufuwa Olusegun (2020) conducted additional empirical analysis to investigate the correlation between fiscal federalism and economic development in Nigeria from 1981 to 2017. We examined fiscal federalism by looking at how much money the federal government gave to each level of government and how much money the government made on its own. We measured development results by looking at things like the literacy rate, the infant mortality rate, and the per capita income. The study utilized a multiple regression framework alongside econometric tests, specifically the Augmented Dickey–Fuller unit root test and the CUSUM stability test, to ascertain a long-term association between fiscal federalism and development indices. Most fiscal federalism factors showed a positive relationship with per capita income, with the exception of contributions to local governments. The writers suggested changes to the Constitution of the Federal Republic of Nigeria 1999, especially a review of Section 162(4–8), to make local governments more independent and make it clearer who is in charge of taxes between the federal and state governments. Enefiok Akpan (2020) also looked at fiscal federalism and socioeconomic development, focusing on how local governments get money and utilizing the principle of fiscal decentralization as a guide. The study, which used survey data from 600 people in Nigeria's six geographic zones, found that fiscal authority and key sources of revenue are still very centralized at the federal level. This means that subnational administrations can't have as much of an impact on development. The report suggested that local governments' duties should match their financial resources and that they should be given more power to raise money by making tax systems better.

Numerous empirical studies have investigated the correlation among fiscal policy, fiscal discipline, and economic development in Nigeria. For example, Evans Evans (2020) used the Autoregressive Distributed Lag (ARDL) bounds testing method to look at the effects of fiscal discipline—measured by policy uncertainty, corruption, fiscal sustainability, budget reforms, and crowding-out—on financial development and economic growth from 1980 to 2017. The results showed that policy uncertainty, corruption, and fiscal deficits had a big detrimental effect on both economic growth and financial development in the short and long term. The study also found that too much public debt hurts financial development and economic performance over time. This shows that fiscal policies that aren't sustainable might have bad long-term effects. On the other hand, the study indicated that changes to the budget had a big positive influence on long-term economic growth and financial development. Furthermore, financial development demonstrated a robust positive correlation with economic growth in both the short and long term, underscoring its essential function in promoting economic progress.

In the same way, Godwin Eghosa and Osaheni John (2021) looked at fiscal federalism and long-term national growth

in Nigeria using a descriptive survey design. Data were gathered via questionnaires distributed to 396 respondents chosen from a population of 62,907 individuals, comprising students, craftsmen, traders, public personnel, and farmers in Auchi, situated in the Etsako West Local Government Area. We used frequency distributions and percentage analysis to look at the answers. The results indicated that effectively executed fiscal federalism might diminish the central government's preeminence, foster equitable regional development, facilitate fair resource allocation, and mitigate corruption. The analysis found that Nigeria's current system of fiscal federalism has not done anything to help long-term national growth. As a result, the authors suggested that the Nigerian government should work toward real fiscal federalism by making structural changes including giving federating units more control over their resources and more freedom to manage and use resources within their own areas.

Other studies have also looked into the link between Nigeria's fiscal policy and its economic growth. Iyeli Ifunanya and Ijomah Chinedu (2023) examined the influence of fiscal policy variables on Nigeria's economic growth from 1970 to 2011, discovering a long-term equilibrium relationship between fiscal policy measures and economic growth. Chude Daniel and Chude Nneka (2023) analyzed the impact of government expenditure, specifically public spending on education, on Nigeria's economic growth from 1977 to 2012, employing a cointegration and Error Correction Model (ECM) approach. Their findings indicated that government spending on education had a statistically significant and favorable effect on long-term economic growth. The study indicated that Nigeria's economic growth is affected by both internal and external factors associated with public expenditure policies, underscoring the need of efficient fiscal management in fostering sustainable development.

Empirical studies have investigated the factors influencing capital formation and the overarching relationship among fiscal federalism, government expenditure, and economic success in Nigeria and other emerging economies. For example, Lucky Lucky and Kingsley Kingsley (2016) looked at what affects capital formation in Nigeria in order to test M. L. Jhingan's ideas about how capital accumulates. The study utilized time-series data from the Central Bank of Nigeria Statistical Bulletin to model Gross Fixed Capital Formation (GFCF/GDP) as a function of various macroeconomic variables, including broad money supply, credit to the private sector, gross national savings, lending rates, exchange rates, inflation, external debt, public expenditure, government revenue, terms of trade, and operating surplus. To investigate the dynamic interrelationships among these variables, the researchers utilized econometric methodologies, including the Augmented Dickey–Fuller unit root test, cointegration analysis, Granger causality tests, and the Vector Error Correction Model. The findings demonstrated that factors including broad money supply, gross national savings, exchange rate, external debt, and terms of trade displayed negative and statistically insignificant correlations with capital formation. In contrast, credit to the private sector, lending rates, inflation, public expenditure, government revenue, and operating surplus revealed positive yet statistically insignificant impacts. Still, the total model accounted for almost 86 percent of the differences in capital formation, and the F-statistic was statistically significant. Consequently, the study determined that these macroeconomic factors collectively impact capital formation in Nigeria and advocated for policies designed to strengthen the financial sector, mitigate capital flight, and reallocate public expenditure towards infrastructure rather than consumption to promote capital accumulation.

Morohunmubo Morohunmubo, Adeshina Adeshina, and Ajibola Ajibola (2019) also looked at how fiscal federalism and government spending affect Nigeria's economic growth. They used secondary data from the Central Bank of Nigeria, the National Bureau of Statistics, and the World Bank. The study, which looked at the years 1990 to 2017, used an Ordinary Least Squares regression model in which Gross Domestic Product was the dependent variable and macroeconomic indicators like interest rates, inflation rates, exchange rates, and revenue allocations to federal, state, and local governments from the federation account were the independent variables. The results showed that there is a positive link between economic growth and fiscal factors such federal and state revenue sharing, exchange rates, and interest rates. The study suggested that to promote long-term economic growth, macroeconomic stability should be maintained by keeping inflation under control.

Comparative study has investigated fiscal federalism in several developing situations beyond Nigeria. For instance, Stephen Stephen and Elvis Elvis (2021) performed a longitudinal descriptive study to assess the impact of fiscal federalism on the health sector in emerging economies, with a special emphasis on Kenya. The research employed a four-year panel dataset encompassing forty-seven administrative divisions, utilizing information sourced from the Kenya National Bureau of Statistics and fiscal institutions tasked with overseeing devolved governance frameworks. Using a fixed-effects econometric model, the study showed how important it is to rectify budgetary imbalances and improve coordination between governments to improve development results. The study thus advised policymakers to adopt methods to address fiscal disparities and enhance collaboration across all levels

of government to attain more effective and equitable developmental results.

A number of recent studies have persisted in investigating the interplay between fiscal federalism, fiscal policy, and socioeconomic development in Nigeria. For example, Nteegah Nteegah (2023) looked into how fiscal federalism may help Nigeria's federating units grow economically and socially. The research indicated that despite Nigeria's federal structure of 36 states with political autonomy, the majority of these states continue to be economically reliant on the federal government owing to the centralized management of essential productive resources. The analysis showed that states with more production capability and more revenue from within were better able to lower poverty, create jobs, and raise literacy rates and the development of human capital. Lagos State, Rivers State, Oyo State, and Ogun State were named as instances of subnational governments that had comparatively high revenue generating and better socioeconomic outcomes. On the other hand, states with low production capability and little money coming in from within the state had higher rates of poverty, unemployment, and illiteracy. The study suggested that the current revenue allocation framework be changed to make the derivation principle stronger. This would give federating units more control over resources they generate locally while still paying taxes to the federal government as a way to promote long-term development.

Okere Chukwuma, Uzowuru Chinedu, and Mbaeri Ifeoma (2022) also looked at how fiscal policy affects human development in Nigeria using yearly time-series data from 1986 to 2017. The investigation utilized data sourced from the Central Bank of Nigeria, the World Bank via the World Development Indicators database, and the Federal Inland Revenue Service. Government recurrent expenditure, government capital expenditure, and tax income were used as stand-ins for fiscal policy variables. The Human Development Index was used to quantify human development. Using the Autoregressive Distributed Lag (ARDL) model, the study demonstrated the presence of cointegration among the variables and identified a positive and statistically significant correlation between fiscal policy and human development in Nigeria. Specifically, recurring government expenditure had a favorable impact on human development, while capital expenditure shown a positive albeit statistically insignificant correlation. Tax income exhibited a negative albeit statistically negligible correlation with human development. The report thus advocated for the government to enhance domestic income generation via efficient tax reforms, rather than excessively depending on foreign borrowing to support fiscal policy expansion.

Olabanji Olabanji, Oluwatoyin Oluwatoyin, Abiola Abiola, Romanus Romanus, and Ese Ese (2020) conducted a study examining the influence of fiscal federalism on Nigeria's economic progress from 1981 to 2017, employing the Autoregressive Distributed Lag methodology. We got the data from the PRS Group and the Central Bank of Nigeria Statistical Bulletin. The findings demonstrated that revenue decentralization had a substantial adverse impact on economic development, evidenced by a coefficient of −2.15 at the 5 percent significance level. Conversely, expenditure decentralization shown a notable positive effect on economic development, with a coefficient of 2.935 at the same significance level. Moreover, the overall decentralization index, assessed as a simultaneity indicator, had a robust positive correlation with economic development, with a coefficient of 4.264, significant at the 1 percent level. These results indicate that fiscal federalism can positively impact economic development when fiscal responsibilities are effectively decentralized to subnational governments, thereby supporting demands for enhanced fiscal autonomy and increased decentralization within Nigeria's federal framework.

Empirical literature has investigated the correlation among financial sector activity, trade dynamics, and capital development in developing nations. For example, Torbira Lucky and Ogbulu Onyema (2014) looked into the link between insurance businesses getting money and Gross Fixed Capital Formation (GFCF) in Nigeria. The study utilized a five-variable multivariate regression model to evaluate the response of capital formation to financial resources mobilized by insurance institutions. In the short term, the results showed that premiums from fire, accident, motor vehicle, and employee liability policies had positive but not statistically significant relationships with GFCF. On the other hand, premiums from marine insurance had a negative and not statistically significant relationship with capital formation. Long-term study, on the other hand, showed that characteristics related to the insurance sector's ability to raise funds had a positive and statistically significant effect on the increase of gross fixed capital creation. The Granger causality test performed in the study revealed no evidence of causal links among the examined variables.

In a similar vein, Kuldeep Pathania (2013) analyzed the correlation among exports, imports, and capital formation in India utilizing time-series econometric methodologies, such as unit root tests, cointegration analysis, and Granger causality tests during the duration of 1991–2010. The objective of the study was to ascertain the existence of causal linkages among export growth, import levels, and capital formation. The empirical findings demonstrated bidirectional causality between export growth and gross

domestic capital formation, suggesting that increases in exports can facilitate capital accumulation, while elevated levels of capital formation can also encourage export expansion. The Granger causality study also showed that capital creation and import levels are related in a one-way way. This shows how trade and investment are linked in the Indian economy.

Literature Gap

This research illustrates that fiscal federalism sustains a substantial correlation with economic growth in both the short and long term. Existing evidence indicates that macroeconomic instability—exemplified by policy uncertainty, corruption, and ongoing fiscal deficits—diminishes financial development and hampers economic growth, consequently impeding advancements in human capital development. While many empirical studies have looked at the link between fiscal federalism and economic growth, not many have looked at the link between fiscal federalism and capital formation, especially in developing nations like Nigeria. This gap in the literature underscores the necessity for additional research into the impact of fiscal federal arrangements on comprehensive developmental outcomes beyond conventional growth metrics. This study especially investigates the relationship between fiscal federalism and human capital development in Nigeria, aiming to offer further empirical insights into the role of fiscal decentralization in fostering sustainable socioeconomic growth.

METHODOLOGY

This study utilized an ex-post facto research design to examine the pertinent data. Ex-post facto research entails a methodical empirical inquiry wherein the researcher analyzes relationships among variables without altering the independent variables, as their occurrences have already transpired. Onwumere J. U. J. (2005) asserts that the ex-post facto approach is suitable in contexts where variables cannot be manipulated by the researcher due to their pre-existence in documented or public formats. In line with the goals set out in Chapter One, this study used secondary data for the empirical analysis. The data were sourced predominantly from credible entities, including the Central Bank of Nigeria Statistical Bulletin and the World Bank database, which offer extensive macroeconomic statistics pertinent to the investigation.

Model Specification

The study models are specified below:

HDI =f(FGFA, SGFA, LGFA) (1)

PCI =f(FGFA, SGFA, LGFA) (2)

GNP =f(FGFA, SGFA, LGFA) (3)

PR =f(FGFA, SGFA, LGFA) (4)

Transforming equation 1-4 to econometrics form, we have

$$HDI = \chi_0 + \chi_1 FGFA + \chi_2 SGAFA + \chi_3 LGFA + \mu \quad (5)$$

$$PCI = \chi_0 + \chi_1 FGFA + \chi_2 SGAFA + \chi_3 LGFA + \mu \quad (6)$$

$$GNP = \chi_0 + \chi_1 FGFA + \chi_2 SGAFA + \chi_3 LGFA + \mu \quad (7)$$

$$PR = \chi_0 + \chi_1 FGFA + \chi_2 SGAFA + \chi_3 LGFA + \mu \quad (8)$$

Where:

HDI = Human Capital Development Index

PCI =Per capita income

GNP =Gross National Product

PR =Poverty rate

FGFA =Federal Government share of federation account

SGFA =state government share of federation account

LGFA =local Government share of federation account

μ 0 =Error Term

$\beta_1 - \beta_4$ = Coefficient of Independent Variables to the Dependent Variables

β_0 = Regression Intercept

Method of Data Analysis

The primary analytical instrument employed is the Ordinary Least Squares (OLS) method, utilizing multiple regression across a span of 36 years, with annual data from 1990 to 2025. We used the coefficient of correlation (r) of the regression, the coefficient of determination (r^2), the student T-test, and the F-test to statistically check the worldwide usefulness of the analytical model and see if the results were reliable.

ANALYSIS AND DISCUSSION OF FINDINGS

Table 1: Fiscal Federalism and Human Development Index

Variable	Coefficient		Std. Error	t-Statistic	Prob.
FGFA	-3.047280		0.490775	-6.209116	0.0000
SGFA	1.203989		0.352103	3.419425	0.0022
LGFA	0.395350		0.192040	2.058681	0.0401
C	-0.039512		0.331082	-0.119343	0.9060
R-squared	0.812792	Mean dependent var			-0.089310
Adjusted R-squared	0.790327	S.D. dependent var			3.890111
S.E. of regression	1.781285	Akaike info criterion			4.119989
Sum squared resid	79.32438	Schwarz criterion			4.308581
Log likelihood	-55.73984	Hannan-Quinn criter.			4.179054
F-statistic	36.18041	Durbin-Watson stat			2.103605
Prob(F-statistic)	0.000000				

Source: Computed from E-View 9.0

Using the estimated result of the fitted regression line in table 1, the following were observed **Federal government allocation:** The regression findings show that the coefficient for federal government allocation is −3.047280, the t-statistic is −6.209116, and the probability value is 0.0000. This shows that there is a statistically significant association. The negative coefficient indicates that federal government allocation significantly hindered human capital development in Nigeria throughout the examined period. This result suggests that when the federal government gave more money to certain industries, human capital development indicators went down. This could be because the money wasn't being used or allocated efficiently to areas that would have helped grow human capital.

State Government Allocation: The outcome indicated that the coefficient of State Government Allocation is 1.203989, accompanied by a t-statistics value of 3.419425 and a probability value of 0.0022, which is statistically significant. This means that the State Government Allocation had a big impact on the growth of human capital in Nigeria throughout the time period we looked at.

Local government allocation: The outcome indicated that the coefficient of local government allocation is 0.395350, accompanied by a t-statistic value of 2.058681 and a probability value of 0.0401, which is statistically significant. This means that the money that local governments gave out during the time period in question had a big beneficial effect on the development of human capital in Nigeria.

Coefficient of Determination (R^2)/Adjusted R^2: Table 1 shows that the coefficient of determination (R^2) is 0.812792 and the modified R^2 value is 0.790327. This means that the variables have a lot of explanatory power. This means that the changes in the independent variables employed in this model account for 79% of the changes in the growth of human capital in Nigeria.

F-statistics: We used the F-test to see if the model was important as a whole. The F-statistic is useful for checking the overall importance of a model that has been calculated. Table 1 reveals that the f-statistics value is 36.18041, which is quite important. This means that the fiscal federalism variables utilized in this analysis have a big effect on the growth of human capital in Nigeria, all other things being equal.

Durbin-Watson (DW) Statistics: The Durbin Watson D-Statistic from the regression result in Table 1 was 2.103605, which is close to 2. This means that the model does not have any autocorrelation. So, the model can be utilized to make reasonable predictions.

Table 2: Fiscal Federalism and Per Capita Income

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
FGFA	0.332232	0.384262	0.864598	0.3966
SGFA	0.002188	0.323925	0.006754	0.9947
LGFA	-0.227970	0.310062	-0.735240	0.4700
C	-0.105544	0.169135	-0.624027	0.5390
R-squared	0.622270	Mean dependent var		4.499063
Adjusted R-squared	0.467745	S.D. dependent var		3.645584
S.E. of regression	2.659666	Akaike info criterion		5.044585
Sum squared resid	155.6241	Schwarz criterion		5.502627
Log likelihood	-70.71336	Hannan-Quinn criter.		5.196413
F-statistic	4.026968	Durbin-Watson stat		2.373018
Prob(F-statistic)	0.003671			

Source: Computed from E-View 9.0

Using the estimated result of the fitted regression line in table 2, the following were observed **Federal government allocation:** The outcome indicated that the regression coefficient for federal government allocation is 0.332232, accompanied by a t-statistics value of 0.864598 and a probability value of 0.3966, which is extremely significant. This means that the federal government's allotment had a positive but not substantial effect on Nigeria's per capita income throughout the time period we looked at.

State Government Allocation: The outcome indicated that the coefficient of State Government Allocation is 0.002188, accompanied with a t-statistics value of 0.006754 and a probability value of 0.9947, which is statistically significant. This means that the State Government Allocation did not have a significant beneficial effect on Nigeria's per capita income during the time period being looked at.

Local government allocation: The outcome indicated that the coefficient for local government allocation is -0.227970, accompanied by a t-statistic of -0.735240 and a probability value of 0.4700, which is statistically insignificant. This means that the local government's allotment had a small negative effect on Nigeria's per capita income during the time period being looked at.

Coefficient of Determination (R^2)/Adjusted R^2: The coefficient of determination (R^2) is 0.622270, and the corrected R^2 value is 0.467745, which means that the variables explain a lot of the variation. This means that the changes in the independent variables included in this model explain 62.2% of the changes in Nigeria's per capita income.

F-statistics: We used the F-test to see if the model was important as a whole. The F-statistic is useful for checking how important an estimated model is as a whole. The f-statistics number in Table 2 is 4.026968, which is very important. This shows that the fiscal federalism variables utilized in this study have a big impact on Nigeria's per capita income, all other things being equal.

Durbin-Watson (DW) Statistics: The Durbin Watson D-Statistic from the regression result in Table 2 was 2.373018, which is close to 2. This means that the model doesn't have any autocorrelation. So, the model can be utilized to make reasonable predictions.

Table 3: Fiscal Federalism and Gross National Product

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FGFA	45.80752	23.92593	1.914556	0.0381
SGFA	-0.078067	0.547231	-0.142657	0.8878
LGFA	-0.431816	1.027541	-0.420242	0.6782
C	0.003290	0.735223	0.004474	0.9965
R-squared	0.635070	Mean dependent var		4.920017
Adjusted R-squared	0.430993	S.D. dependent var		8.309875
S.E. of regression	8.437667	Akaike info criterion		7.335547
Sum squared resid	1637.467	Schwarz criterion		7.747785
Log likelihood	-108.3688	Hannan-Quinn criter.		7.472192
F-statistic	4.883512	Durbin-Watson stat		2.414127
Prob(F-statistic)	0.004917			

Source: Computed from E-View 9.0

Using the estimated result of the fitted regression line in table 3, the following were observed **Federal government allocation:** The result showed that the regression coefficient for federal government allocation is 45.80752. The t-statistics value is 1.914556 and the probability value is 0.0381, which is very significant. This means that the federal government's spending had a big and beneficial effect on Nigeria's gross national product throughout the time period we looked at.

State Government Allocation: The outcome indicated that the coefficient of State Government Allocation is -0.078067, accompanied by a t-statistics value of -0.142657 and a probability value of 0.8878, which is not statistically significant. This means that the State Government Allocation had a small negative effect on Nigeria's gross national product during the time period being looked at.

Local government allocation: The outcome indicated that the coefficient for local government allocation is -0.431816, accompanied by a t-statistic of -0.420242 and a probability value of 0.6782, which is statistically significant. This means that the allocation of money by local governments in Nigeria during the time period being looked at had no significant negative influence on the country's gross national product.

Coefficient of Determination (R^2)/Adjusted R^2: Table 1 shows that the coefficient of determination (R^2) is 0.635070 and the modified R^2 value is 0.430993. This means that the variables have a lot of explanatory power. This means that the changes in the independent variables employed in this model account for 63.5% of the changes in Nigeria's gross national product.

F-statistics: We used the F-test to see if the model was important as a whole. The F-statistic is useful for checking the overall importance of a model that has been calculated. The f-statistics value in Table 3 is 4.883512, which is quite important. This shows that the fiscal federalism factors utilized in this analysis have a big effect on Nigeria's gross national product, all else being equal.

Durbin-Watson (DW) Statistics: The Durbin Watson D-Statistic from the regression result in Table 3 was 2.414127, which is close to 2. This means that the model does not have any autocorrelation. So, you may utilize the model to make reasonable predictions.

Table 4: Fiscal Federalism and Poverty Rate

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FGFA	0.154602	0.243073	0.636033	0.5316
SGFA	-0.044231	0.346322	-0.127716	0.8996
LGFA	0.089542	0.265762	0.336924	0.7395
C	0.044446	0.173271	0.256513	0.8001
R-squared	0.546953	Mean dependent var		7.81E-16
Adjusted R-squared	0.406879	S.D. dependent var		2.253603
S.E. of regression	2.673042	Akaike info criterion		5.070598
Sum squared resid	150.0482	Schwarz criterion		5.574445
Log likelihood	-70.12957	Hannan-Quinn criter.		5.237609
F-statistic	4.103459	Durbin-Watson stat		2.078388
Prob(F-statistic)	0.009615			

Source: Computed from E-View 9.0

Using the estimated result of the fitted regression line in table 4, the following were observed **Federal government allocation:** The outcome indicated that the regression coefficient for federal government allocation is 0.154602, accompanied by a t-statistic of 0.636033 and a probability value of 0.5316, which is markedly insignificant. This means that the federal government's allotment had a small but favorable effect on Nigeria's poverty rate throughout the time period being looked at.

State Government Allocation: The outcome indicated that the coefficient of State Government Allocation is -0.044231, accompanied by a t-statistics value of -0.127716 and a probability value of 0.8996, which lacks statistical significance. This means that the State Government Allocation didn't have a big enough negative influence on Nigeria's poverty rate during the time period we looked at.

Local government allocation: The outcome indicated that the coefficient of local government allocation is 0.089542, accompanied by a t-statistic value of 0.336924 and a probability value of 0.7395, which is not statistically insignificant. This means that the way local governments spent money didn't have a big effect on the poverty rate in Nigeria over the time period we looked at.

Coefficient of Determination (R^2)/Adjusted R^2: Table 4 shows that the coefficient of determination (R^2) is 0.546953 and the modified R^2 value is 0.406879. This means that the variables have a lot of explanatory power. This means that the changes in the independent variables employed in this model account for 54.6% of the changes in Nigeria's gross national product.

F-statistics: We used the F-test to see if the model was important as a whole. The F-statistic is useful for checking the overall importance of a model that has been calculated. Table 4 displays an f-statistic value of 4.103459, indicating strong significance. This means that the fiscal federalism variables utilized in this analysis have a big impact on Nigeria's poverty rate when all other things are equal.

Durbin-Watson (DW) Statistics: The Durbin–Watson (DW) statistic in Table 4 shows that the regression results are 2.078388, which is about the same as 2. This shows that the residuals of the regression model do not have autocorrelation, which means that the estimated model is statistically sound and good for making predictions and analyzing policy. The results of this study align with other prior empirical investigations. Godwin Eghosa and Osaheni John (2021) noted that effective fiscal federalism might diminish the central government's influence, foster balanced regional development, facilitate equal resource allocation, and eliminate corruption in Nigeria. Nevertheless, their research also determined that the existing implementation of fiscal federalism in Nigeria has not substantially facilitated sustained national growth. In the same way, Nteegah Nteegah (2023) said that giving states more freedom to use their resources and send taxes to the federal government may greatly improve development outcomes across the country. Furthermore, the results correspond with the research conducted by Amaefule Chinedu and Nwaimo Chukwuemeka (2021), which indicated that federal government allocations did not significantly influence the Human Development Index (HDI), whereas allocations to state governments had a notable negative effect, and allocations to local governments exhibited a significant positive impact on human development. These findings collectively bolster the assertion that enhanced fiscal decentralization and better management of intergovernmental fiscal relations are crucial for fostering sustainable human capital development and socioeconomic advancement in Nigeria.

CONCLUSION AND RECOMMENDATIONS

This study examined the impact of fiscal federalism on Nigeria's economic development, utilizing indicators such as the Human Development Index (HDI), per capita income, gross national product (GNP), and poverty rate as dependent variables, while fiscal allocations to federal, state, and local governments functioned as explanatory

variables. Model One's results showed that the federal government's allocation had a regression coefficient of −3.047280, a t-statistic of −6.209116, and a probability value of 0.0000. This means that there is a statistically significant negative association between the allocation and the Human Development Index. On the other hand, the coefficient for state government allocation was 1.203989, the t-statistic was 3.419425, and the probability value was 0.0022, which means that it had a positive and statistically significant effect on HDI. Likewise, the allocation by local government yielded a coefficient of 0.395350, a t-statistic of 2.058681, and a probability value of 0.0401, indicating a positive and statistically significant effect on human development. In Model Two, which looked at the effect on per capita income, the federal government's allocation had a coefficient of 0.332232, a t-statistic of 0.864598, and a probability value of 0.3966, which means that the association was not statistically significant. The coefficient for state government allocation was 0.002188, the t-statistic was 0.006754, and the probability value was 0.9947. The coefficient for local government allocation was −0.227970, the t-statistic was −0.735240, and the probability value was 0.4700. Both results indicate that appropriations to state and municipal governments did not exert a statistically significant impact on per capita income over the examined period.

Model three shows that the federal government's allocation is 45.80752, with a t-statistics value of 1.914556 and a probability value of 0.0381, which is very important. The state government's allocation is -0.078067, with a t-statistics value of -0.142657 and a probability value of 0.8878, which means it doesn't have a statistically significant effect on gross national product. The local government's allocation is -0.431816, with a t-statistics value of -0.420242 and a probability value of 0.6782, which means it doesn't have a statistically insignificant effect on gross national product. The fourth model indicated that the federal government's allocation is 0.154602, with a t-statistics value of 0.636033 and a probability value of 0.5316, which means it is not very important. State Government Allocation is -0.044231 with a t-statistics value of -0.127716 and a probability value of 0.8996, which means it doesn't have a statistically significant effect on poverty rate. Local government allocation is 0.089542 with a t-statistics value of 0.336924 and a probability value of 0.7395, which means it does have a statistically insignificant effect on poverty rate.

Recommendations

From the findings, the study makes the following recommendations:

i. The revenue-sharing formula of the Federation Account in Nigeria needs to be changed right away so that more money goes to state and local governments. These kinds of changes should be supported by a whole set of laws and institutions that make sure that money paid from the federation account is used in a way that is clear, accountable, and efficient. Strengthening regulatory monitoring will assist make sure that budgetary allocations help the economy grow in a way that lasts.

ii. The federal government should change how it spends money by making investments in the real economy and developing human capital its top priority. Long-term economic growth can be sparked by more money going to areas like education, health care, and productive enterprises. Also, the federal government should strategically direct its funding to state governments for infrastructure development, since better infrastructure, such transportation, energy supply, and communication networks, are key to economic growth.

iii. Local governments should use the money they get from the federation account to carry out projects that help people and eliminate poverty. These kinds of projects could include building community infrastructure, programs to help people make money in their own communities, and other projects that have a direct impact on people's lives. Also, obstacles that make it hard to use public funds effectively should be removed, and systems that encourage accountability, openness, and productivity should be made stronger. Setting up monitoring committees at various levels of government could help make sure that the money is spent wisely and in ways that support long-term economic growth.

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