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Effect of Federal Revenue Allocation on Economic Growth in Nigeria

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ABSTRACT
This study examined the effect of federal revenue allocation on economic growth in Nigeria using annual time-series data covering the period 2000–2024. The study was anchored on the fiscal federalism theory, which posits that the effective allocation of financial resources among the different tiers of government enhances economic efficiency, public service delivery, and sustainable economic development. real gross domestic product (RGDP) was adopted as the proxy for economic growth, while federal government allocation (FGA), state government allocation (SGA), and local government allocation (LGA) were employed as indicators of federal revenue allocation. Secondary data were obtained from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and Federation Account Allocation Committee (FAAC) reports. The Ordinary Least Squares (OLS) regression technique was employed for data analysis. The findings revealed that federal government allocation and state government allocation have positive and statistically significant effects on real gross domestic product, indicating that increased statutory allocations to these tiers of government promote economic growth through investments in infrastructure and public services. Conversely, local government allocation exhibited a negative but statistically insignificant relationship with economic growth. The study concludes that effective utilization of federal and state revenue allocations is crucial to accelerating Nigeria's economic growth, while improved financial accountability and governance are required to enhance the developmental impact of local government allocations. The study recommends strengthened fiscal discipline, improved transparency, prudent public expenditure management, and enhanced monitoring of revenue utilization across all tiers of government to achieve sustainable economic growth in Nigeria.
Keywords: Federal Government Allocation, State Government Allocation, Local Government Allocation, Real GDP, Economic Growth

1.0 INTRODUCTION

The issue of federal revenue allocation has remained a central concern in the fiscal and economic architecture of Nigeria, particularly given the country's federal structure and heavy dependence on centrally collected revenues. According to Yagboyaju and Omotayo, (2026), Nigeria operates a system of fiscal federalism in which revenues mainly derived from oil, taxation, and other national sources are pooled into the Federation Account and distributed among the federal, state, and local governments. This arrangement is intended to promote equitable development, ensure efficient public service delivery, and foster economic growth across the country. However, the effectiveness of this system in achieving sustainable economic growth has remained a subject of intense scholarly and policy debate (Adanma, & Ogunbiyi, 2024).

Historically, Nigeria's revenue allocation system evolved from colonial administrative arrangements to a more structured fiscal framework guided by principles such as derivation, population, equality of states, and need. Despite several reforms and commissions established to review allocation formulas, the system continues to face challenges relating to equity, efficiency, and accountability. Recent empirical evidence suggests that revenue allocation plays a critical role in shaping economic outcomes, particularly through its influence on public expenditure, infrastructure development, and social welfare (Ogbonna & Appah, 2020; Umo-Udo et al., 2025). This underscores the importance of understanding how federal revenue distribution impacts economic growth in Nigeria.

Economic growth, often measured by increases in real gross domestic product (GDP), is a key objective of public policy in Nigeria. Government revenue, especially when efficiently allocated, serves as a major instrument for stimulating economic activities, promoting industrialization, and improving living standards. Studies have shown that the ability of government to mobilize and allocate resources effectively determines the pace and sustainability of economic growth (Nwosu, 2024). In Nigeria, where the public sector plays a dominant role in economic development, revenue allocation is expected to facilitate capital investment in critical sectors such as infrastructure, education, health, and agriculture.

However, the effect of federal revenue allocation on economic growth in Nigeria is not straightforward. While some studies report a positive and significant relationship between revenue allocation and economic growth, others reveal mixed or even negative outcomes, particularly at subnational levels. For instance, empirical findings indicate that revenue allocation to the federal and state governments may positively influence economic growth, whereas allocations to local governments often show weak or insignificant effects due to inefficiencies and governance challenges (Nwala & Eneche, 2023). Similarly, other studies find that although revenue allocation has a statistically significant impact on GDP, the effectiveness of such allocations depends largely on how funds are utilized (Aondowase et al., 2019; Okafor & Nwosu, 2019).

One of the major challenges confronting federal revenue allocation in Nigeria is the issue of mismanagement, corruption, and lack of fiscal discipline. Despite substantial allocations to different tiers of government, the expected improvements in infrastructure and socio-economic development have not been fully realized. This paradox suggests that the problem may not only lie in the volume of revenue allocated but also in the efficiency and transparency of its utilization. Evidence from recent Nigerian studies indicates that poor governance, weak institutional frameworks, and inadequate monitoring mechanisms significantly undermine the impact of revenue allocation on economic growth (Obiora & Edeh, 2024; Ikenna & Okeke, 2022).

Furthermore, Nigeria's overdependence on oil revenue has introduced volatility into the revenue allocation system, making it susceptible to fluctuations in global oil prices. This instability affects the predictability of government revenue and, by extension, the ability of different tiers of government to plan and implement development projects effectively. Recent fiscal reforms aimed at improving revenue mobilization and transparency such as directing oil revenues fully into the Federation Account highlight ongoing efforts to strengthen the revenue allocation system and enhance its contribution to economic growth. Nevertheless, these reforms also underscore the persistent structural challenges within Nigeria's fiscal framework.

Another important issue is the imbalance in fiscal capacity among states and local governments. While some states generate substantial internally generated revenue (IGR), others depend almost entirely on federal allocations. This disparity affects the ability of subnational governments to contribute meaningfully to national economic growth. Studies have shown that states with higher fiscal autonomy and better revenue management practices tend to experience improved economic performance, whereas those heavily dependent on federal allocations often face developmental constraints (Ogbonna & Appah, 2020). Therefore, this study is motivated by the need to provide a comprehensive analysis of the effect of federal revenue allocation on economic growth in Nigeria.

1.1 Statement of the Problem

Federal revenue allocation remains a central mechanism of fiscal federalism in Nigeria, designed to ensure equitable distribution of national resources among the federal, state, and local governments. The system is expected to promote balanced regional development, enhance public service delivery, and ultimately stimulate economic growth. However, despite decades of revenue sharing and multiple reforms of allocation formulas, Nigeria continues to experience persistent economic challenges such as slow economic growth, high unemployment, infrastructural deficits, and regional disparities. This paradox raises serious concerns about the effectiveness of federal revenue allocation as a tool for achieving sustainable economic growth.

Empirical evidence indicates that although significant financial resources are distributed periodically through the Federation Account Allocation Committee (FAAC), the expected positive impact on economic growth has not been fully realized. For instance, Nwala and Eneche (2023) found that revenue allocation to different tiers of government exerts mixed effects on economic growth, with some allocations showing positive but statistically insignificant relationships with gross domestic product (GDP). Similarly, Omodero (2019) reported that while federal allocations may contribute positively to economic growth, the overall impact remains weak due to inefficiencies in resource utilization. These findings suggest that the relationship between federal revenue allocation and economic growth in Nigeria is not only complex but also inconsistent, thereby creating a gap in understanding its true impact.

One of the major problems associated with federal revenue allocation in Nigeria is the issue of mismanagement and inefficient utilization of allocated funds. Despite substantial increases in revenue allocations over the years, there is limited evidence of corresponding improvements in infrastructure, healthcare delivery, education, and other critical sectors. Afolabi (2023) argues that corruption, weak institutional frameworks, and lack of accountability significantly undermine the effectiveness of public expenditure in Nigeria. This implies that the problem may not necessarily lie in the amount of revenue allocated but rather in how effectively such funds are managed and utilized. Consequently, the inability to translate financial allocations into tangible development outcomes weakens the linkage between revenue allocation and economic growth.

Another critical issue is Nigeria's heavy dependence on oil revenue as the primary source of funds for federal allocation. This dependence exposes the economy to external shocks arising from fluctuations in global oil prices, leading to unstable revenue inflows. Oladejo, Adegbayibi, and Ajani (2025) observed that the volatility of oil revenue has continued to affect the predictability and sustainability of government finances, thereby constraining long-term economic planning and growth. Although efforts have been made to diversify revenue sources through increased taxation and non-oil revenue generation, these initiatives have not yet significantly reduced the country's reliance on oil revenue. As a result, revenue allocation remains vulnerable to external economic conditions, limiting its effectiveness in promoting stable economic growth.

Furthermore, there is a significant imbalance in fiscal capacity among states and local governments in Nigeria. While some states generate substantial internally generated revenue (IGR), others depend almost entirely on federal allocations for survival. Okolie, Akpukpu, and Udeh (2024) noted that local government revenue, including federal allocations, has not significantly contributed to economic development due to inefficiencies in administration and weak governance structures. This imbalance limits the ability of less financially independent states to invest in development projects, thereby widening regional inequalities and constraining overall economic growth. It is against this backdrop, that this study is aimed at examining the effect of federal revenue allocation on economic growth in Nigeria to fill in the gap.

1.2 Aim and Objectives of the Study

The aim of this study is to determine the effect of federal revenue allocation on economic growth in Nigeria. The study specific objectives are to:

i. Determine the effect of federal government allocation on real gross domestic product in Nigeria

ii. Investigate the effect of state government allocation on real gross domestic product in Nigeria.
iii. Ascertain the effect of between local government allocation on real gross domestic product in Nigeria.

2.0 Conceptual Review

1 Federal Government Allocation

Federal revenue allocation in Nigeria is a central component of fiscal federalism, designed to distribute nationally generated revenue among the three tiers of government, federal, state, and local governments. The system is primarily governed by constitutional provisions and administered through the Federation Account Allocation Committee (FAAC). Theoretically, revenue allocation is intended to promote equity, efficiency, and balanced development across the federation. However, the Nigerian experience reveals persistent controversies regarding its effectiveness in achieving these objectives. Scholars have extensively examined the structure and dynamics of revenue allocation in Nigeria. According to Pillah (2024), revenue allocation is not merely a fiscal mechanism but also a political tool used to maintain national cohesion, promote equity, and ensure stability within a diverse federation. However, the author argues that the Nigerian system has been characterized by excessive centralization of resources at the federal level, thereby limiting the fiscal autonomy of states and local governments. This centralization has led to continuous agitations for resource control and restructuring of the revenue allocation formula.

The principle of revenue allocation in Nigeria has evolved over time, incorporating criteria such as derivation, population, equality of states, land mass, and social development needs. Despite these criteria, debates over fairness and equity persist. Studies indicate that the derivation principle, which allocates a percentage of revenue to resource-producing states, has been a major source of contention, particularly in the Niger Delta region. While it is intended to compensate for environmental degradation and resource exploitation, it has also contributed to regional disparities and political tensions (Pillah, 2024). Empirical literature suggests that federal revenue allocation has not significantly translated into meaningful economic development. For instance, Amakihe and Sadeeq (2018) found that the utilization of federal allocations has not substantially improved social sector development in Nigeria, particularly in areas such as education, healthcare, and infrastructure. The study attributed this outcome to weak policy frameworks, inadequate budgetary commitment, and poor governance practices. This finding highlights the gap between revenue allocation and actual development outcomes.

Similarly, Nwala and Eneche (2023) examined the impact of revenue allocation on economic growth in Nigeria using time-series data and found that allocations to the federal government have a positive but statistically insignificant effect on gross domestic product (GDP). This suggests that although revenue allocation contributes to economic activity, its impact is limited by inefficiencies in resource utilization and governance challenges. The authors emphasized the need for stronger institutional mechanisms to ensure accountability and transparency in the use of public funds. Further evidence from Oklobia and Mahmud (2024) indicates that fiscal federalism and public budgeting in Nigeria are closely linked to issues of inequality and uneven development. Their study revealed that the current revenue allocation system has not effectively addressed regional disparities, largely due to weak institutional capacity, corruption, and lack of participatory budgeting processes. The authors argued that improving equity and accountability in revenue allocation is essential for achieving sustainable development.

Federal Government Allocation

Federal Government Allocation constitutes the largest vertical share, typically around 52-56% of net distributable revenue (approximately 48.5% direct federal share plus allocations for ecological funds, FCT, stabilization, and natural resources development). This tier funds national responsibilities such as defense, foreign affairs, major infrastructure, and debt servicing. Empirical studies reveal mixed impacts on economic growth: federal allocations often show a significant negative or insignificant effect on growth indicators like real GDP or Human Development Index, attributed to inefficiencies, high recurrent spending, and centralization that limits subnational development (Umo-Udo, 2025; Onyia, 2019, as

referenced in recent analyses). For instance, excessive federal dominance is critiqued for hindering grassroots progress amid oil dependency and fiscal volatility (Adeleke, 2021).

State Government Allocation

State Government Allocation accounts for approximately 24-27% of net revenue, distributed horizontally among the 36 states and FCT using criteria like equality (40%), population (30%), landmass/terrain (10%), IGR effort (10%), and social development (10%). States utilize these funds for education, health, roads, and administration. Research indicates a positive and significant effect on economic growth and human development, as state-level spending supports regional infrastructure and service delivery more directly than federal centralization (Umo-Udo, 2025). However, dependency on federal transfers reduces fiscal autonomy and internal revenue generation, with some studies noting negative correlations in certain contexts due to mismanagement (Adeleke, 2021).

Local Government Allocation

Local Government Allocation comprises about 20-21% of net revenue, shared among 774 local government areas using similar horizontal factors, targeting grassroots needs like primary education, health, rural roads, and sanitation. Despite constitutional intent for local empowerment, allocations often face challenges from state interference (pre-2024 Supreme Court ruling on direct disbursements) and limited capacity, resulting in insignificant or no significant effect on national economic growth in many models (Umo-Udo, 2025). Recent analyses emphasize that enhanced local autonomy could amplify positive grassroots impacts, though empirical evidence shows weaker links to aggregate RGDP compared to state shares (Osho, 2025).

Economic Growth

Economic growth represents a sustained increase in a country's productive capacity and is a key indicator of macroeconomic performance. In Nigeria, economic growth has remained a central policy objective, particularly due to the need to address unemployment, poverty, and infrastructural deficits. According to Ndalu and Umennaihe (2024), Economic growth is the increase in the value of goods and services produced by an economy over time. The literature conceptualizes economic growth as a multidimensional phenomenon influenced by macroeconomic stability, institutional quality, investment, and human capital development. Empirical studies in Nigeria have shown that economic growth is largely driven by macroeconomic variables such as inflation, exchange rate, public expenditure, and investment. Bilewu, Orenuga, and Abass (2025) found that inflation rate and exchange rate significantly influence economic growth, with instability in these variables constraining growth performance. Their findings reinforce the argument that macroeconomic instability undermines productive investment and reduces economic output. Similarly, Joseph, Peter, and Etim (2026) established that high inflation rates have a negative impact on economic growth in Nigeria, particularly in the long run, as rising prices erode purchasing power and discourage savings and investment.

The role of public sector activities in economic growth has also been widely examined. Anigboro (2024) argued that government expenditure especially capital expenditure plays a crucial role in stimulating economic growth by improving infrastructure and enhancing productive capacity. However, the study noted that inefficient allocation and mismanagement of public funds often limit the effectiveness of government spending in Nigeria. This aligns with broader literature emphasizing that the quality of public spending is more important than its quantity in driving economic growth.

Measures of Economic Growth

The best measure of economic growth (the dependent variable) is Real Gross Domestic Product (RGDP), also commonly referred to as real GDP or inflation-adjusted GDP. This is the most widely adopted and appropriate proxy in empirical Nigerian macroeconomic studies on fiscal federalism, revenue allocation, and growth. Therefore, this study measured economic growth using real gross domestic product.

Real Gross Domestic Product

Real Gross Domestic Product (RGDP) is widely recognized as the most reliable measure of economic growth, as it reflects the total value of goods and services produced within an economy after adjusting for

inflation. In Nigeria, RGDP is commonly used in empirical studies as a proxy for economic growth because it provides a clearer picture of changes in output over time without the distortions caused by price fluctuations. According to Seifegha, Ndalu and Okene, (2023), the percentage change in real gross domestic product (GDP) from one year to the next is typically used to measure economic growth. Economic growth is a key indicator of a nation's economic health and development (Ndalu & Umennaihe, 2024). The literature emphasizes that RGDP is influenced by a variety of macroeconomic and structural factors. Musa, Salisu, and Magaji (2024) examined the relationship between financial inclusion and economic growth in Nigeria, using RGDP as the dependent variable. Their findings revealed that financial inclusion indicators such as money supply, banking access, and digital transactions significantly influence RGDP, suggesting that increased access to financial services enhances economic productivity.

Similarly, studies on macroeconomic determinants of RGDP highlight the role of key variables such as inflation, exchange rate, and interest rates. Bilewu et al. (2025) found that fluctuations in these variables directly affect RGDP growth, as they influence investment decisions and overall economic stability. In particular, exchange rate volatility has been identified as a major constraint on RGDP growth in Nigeria, given the country's dependence on imported goods and foreign exchange earnings. Public debt and fiscal policy also play significant roles in determining RGDP. Hassan, Muhammed-Gani, and Odonye (2024) found that both domestic and external debt have positive long-run effects on RGDP growth, as they finance infrastructure development and public investment. However, debt servicing obligations were found to have negative effects on RGDP, as they reduce the resources available for productive investment. This suggests that while borrowing can stimulate growth, excessive debt can hinder long-term economic performance.

11 Theoretical Framework

This study is anchored on Fiscal Federalism Theory developed by Richard Musgrave (1959) and later expanded by Wallace Oates (1972). This is because it directly addresses the core subject of the study - revenue allocation among different tiers of government**.**

Fiscal Federalism Theory

The Fiscal Federalism Theory is the most relevant and widely used theoretical framework for analyzing revenue allocation and economic growth, particularly in federal systems such as Nigeria. The theory was originally developed by Richard Musgrave (1959) and later expanded by Wallace Oates (1972). It explains how governmental functions and financial resources should be allocated among different tiers of government to achieve efficiency, equity, and macroeconomic stability. Fiscal federalism posits that decentralization of revenue and expenditure responsibilities enhances economic efficiency because subnational governments are better positioned to understand and respond to local preferences and developmental needs. According to Oates (1972), the "decentralization theorem" suggests that public services should be provided at the lowest level of government capable of doing so efficiently. In the Nigerian context, this implies that effective allocation of revenue to states and local governments should stimulate grassroots development and contribute to overall economic growth. Recent empirical studies support this theoretical position. For example, Nkoro and Otto (2023) found that revenue and expenditure decentralization have a positive and significant impact on economic development in Nigeria, suggesting that effective fiscal federalism can enhance growth outcomes. Similarly, Umar (2024) argues that revenue allocation is a core component of fiscal federalism and plays a critical role in intergovernmental relations and development outcomes in Nigeria. However, the theory also acknowledges that poor institutional quality, corruption, and weak governance can undermine the benefits of decentralization.

111 Empirical Review

The existing literature on federal revenue allocation and economic growth have yielded different results and are presented below:

Musa, Hussaini, and Haruna (2025) examined the impact of public revenue components on economic growth in Nigeria using time-series data from 1992 to 2024. The ARDL bounds testing approach was employed to determine both short-run and long-run relationships. The findings indicated the existence of

a long-run relationship between revenue components and economic growth, with oil revenue having a negative and statistically significant effect on growth in the long run. The study concluded that overdependence on oil revenue undermines economic growth and recommended diversification of revenue sources to enhance sustainable growth**.**

Bulus, Hyellafiya, Gamawa; and Nadada (2023) examined the impact of revenue allocation on economic growth in Nigeria; revenue allocation among the three tiers of government in Nigeria has been a subject of burning argument for long period of time and its effect the Gross Domestic Product (GDP) in Nigeria using time series data for the period of 1981 to 2020. The data for this study were sourced through Central Bank of Nigeria Annual Report (CBN), World Development Indicators (WDI, 2021) and Federation Account Allocation Committee (FAAC, 2020). The work uses the methodology of unit root test (ADF) to test the Stationarity of the data, autoregressive distributed lag (ARDL), short run and long run, Bound test. The study's findings shows that revenue allocation for the Federal government have significant impact on Gross Domestic Product (GDP) in Nigeria, the allocation revenue for the State have negative impact on GDP with 0.17%, the lending interest rate (LINR) also have negative impact on GDP in the long run. All variables of the study are co-integration and have a long run relationship that 86% of the error correction model (ECM) disequilibrium is corrected yearly and revert back to its normal position.

Onyia and Okereke (2019) investigated the impact of revenue allocation on economic growth in Nigeria using time series data from 1981 to 2016. The ex post facto research design was employed in the study which necessitated the use of the augmented unit root test, Cointegration test and the Error Correction Model to analyze the data. Revenue allocations to two levels of government were used as independent variables while real gross domestic product represents economic growth. The study major objectives of the study are to determine the impact of federal government revenue allocation share on economic growth in Nigeria. And to determine the impact of state government revenue allocation shares on economic growth in Nigeria. The study found that revenue allocations to the federal government has a significant positive impact on economic growth in Nigeria for the period studied. Also, revenue allocations to the state governments have a significant positive impact on economic growth in Nigeria for the period studied.

Ohiomu and Oluyemi (2017) researched on fiscal federalism and economic growth nexus: Empirical evidence from Nigeria. The study made use of Co-integration diagnostics tests and ECM on E-Views 8. Time series data used were gathered from CBN statistical bulletin and spanned from 1984 to 2015. The dependent variable identified in this study was the RGDP while the revenue allocation to the federal, state and local governments served as the explanatory variables. The result of the study revealed that revenue allocation to state government increases economic growth by 0.26% which shows a positive effect on economic growth. In other words, revenue allocation to state governments contributed to economic growth in Nigeria. Revenue allocation to federal government showed a minute increase of 0.001% to the economic growth despite the lion share given to it for national projects and general economic development. The result on the allocation to the local government revealed a negative effect of -0.03%. The study suggested a review of the current revenue sharing formula which should be centered on responsibilities of each tier of the government.

Ojide and Ogbodo (2015) carried out a study on the federation account allocation in Nigeria: Implication for growth. The paper considered whether there is statistical growth evidence of federal government's allocation share, state governments' allocation share (SGAS) and state governments' internally generated revenue in Nigeria. The time series data employed covered the period of 1970-2009. Distributed lag model was used to analyze the relationship between allocations (federal and state governments) and economic growth. The GDP is expressed as a function of the revenue allocation to federal, state and state internally generated revenue. The regression result showed that the federal government allocation share and the state governments' internally generated revenue (0.55% and 0.17% respectively) have positive and significant association with economic growth, while the SGAS has a negative and significant

relationship with growth (−0.64%). The result of this study suggests that SGAS has a negative impact on economic growth.

3.0 METHODOLOGY

This study investigated the effect of federal revenue allocation on economic growth in Nigeria using federal government allocation, state government allocation and local government allocation as the dimension of federal revenue allocation and real gross domestic product as the measure of economic growth. Ex - post-facto research design was adopted to achieve the objectives of the study. The population and the study sample size was mostly focused on what constitutes the dimensions of federal revenue allocation in this study such as federal government allocation, state government allocation and local government allocation and real GDP as the measures of economic growth in Nigeria. Secondary data was used for the study which was obtained from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and FAAC reports. The study focused on a time series data covering a period of 2000 to 2024 accounting years. The descriptive statistics such as mean, standard deviation and standard error was used to organize, summarize and explain the features of the distribution of the collected data. While the inferential statistic of Ordinary Least Squares **(**OLS**)** regression was used to describe the effect of independent quantitative variables on the dependent variables.

Model Specification

Model specification in statistics and econometrics refers to the process of defining the structure and components of a statistical model that will be used to analyse data. It involves making choices about the variables to include, the functional form of the relationship between the variables, and any assumptions about the error term. The study modifies the model developed by Seifegha, Ndalu & Okene, (2023), Idris & Suleiman (2019) and Inyiama (2013). In accordance with their models, the model to be used for the study in its functional form is specified as follows:

RGDP f (FGA , SGA, LGA) ……..……. ……. (1)

From equation (1), the above model in its econometric form is given as:

$RGDP = \beta_0 + \beta_1 FGA + \beta_2 SGA + \beta_3 LGA + \mu_t$ ……. …...……. (2)

Where;

RGDP = Real Gross Domestic Product

FGA = Federal Government Allocations

SGA = State Government Allocations

LGA = Local Government FAAC Allocations

β_0 = Intercept of the relationship in the model

Ut = Error Term

4.0 DATA PRESENTATION AND ANALYSIS

Descriptive Statistics of all the Variables of the Study

Table 4.1: Descriptive Statistics

	RGDP	FGA	SGA	LGA
Mean	4.987370	11.89457	26.72528	20.62659
Median	5.000000	8.934214	26.72414	20.60440
Maximum	15.32916	30.40529	26.90355	20.83333
Minimum	-1.794253	2.895182	26.56250	20.50633
Std. Dev.	3.643759	7.814765	0.077432	0.084086
Skewness	0.504222	1.253652	-0.015658	1.262692
Kurtosis	4.188572	3.372071	3.000191	3.931794
Jarque-Bera	2.530898	6.692722	0.001022	7.547708
Probability	0.282113	0.035212	0.999489	0.022963
Sum	124.6842	297.3642	668.1321	515.6647
Sum Sq. Dev.	318.6476	1465.693	0.143896	0.169691
Observations	25	25	25	25

Source: E-views 12.0 Output, 2026

Table 4.1 presents the descriptive statistics for the variables used in the study, namely Real Gross Domestic Product (RGDP), Federal Government FAAC Allocations (FGA), State Government FAAC Allocations (SGA), and Local Government FAAC Allocations (LGA), based on 25 annual observations. The descriptive statistics show that RGDP exhibited moderate variability, FGA experienced the greatest fluctuations, while SGA and LGA were comparatively more stable over the study period. The normality test further reveals that RGDP and SGA are normally distributed, whereas FGA and LGA deviate from normality. These findings provide preliminary insights into the characteristics of the variables before proceeding to econometric estimation.

This OLS regression was run to test Hypothesis One, Hypothesis Two and Hypothesis Three.

Table 4.2: Ordinary Least Square Estimate

Dependent Variable: RGDP
Method: Least Squares
Date: 06/27/26 Time: 20:10
Sample (adjusted): 2002 2024
Included observations: 23 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-540.5497	202.5671	-2.668497	0.0157
RGDP(-1)	0.450948	0.175640	2.567462	0.0194
FGA-2)	0.305793	0.085159	3.590863	0.0021
SGA(-2)	26.86865	6.770267	3.968626	0.0009
LGA-1)	-8.671063	7.013816	-1.236283	0.2322

R-squared	0.715940	Mean dependent var	4.946372
Adjusted R-squared	0.652816	S.D. dependent var	3.800378
S.E. of regression	2.239272	Akaike info criterion	4.639839
Sum squared resid	90.25808	Schwarz criterion	4.886685
Log likelihood	-48.35814	Hannan-Quinn criter.	4.701920
F-statistic	11.34174	Durbin-Watson stat	1.691543
Prob(F-statistic)	0.000090		

Source: E-views 12.0 Output, 2026

Table 4.2 presents the results of the Ordinary Least Squares (OLS) regression analysis examining the effect of Federal Government FAAC Allocations (FGA), State Government FAAC Allocations (SGA), and Local Government FAAC Allocations (LGA) on Nigeria's economic growth, proxied by Real Gross Domestic Product (RGDP). The model also incorporates the one-period lag of RGDP [RGDP(-1)] to capture the dynamic nature of economic growth. The findings reveal that lagged economic growth, Federal Government FAAC allocations, and State Government FAAC allocations are significant determinants of Real Gross Domestic Product in Nigeria, all exerting positive and statistically significant effects on economic growth. In contrast, Local Government FAAC allocations exhibit a negative but statistically insignificant effect, suggesting that their contribution to economic growth was not sufficiently strong over the period covered by the study. The results therefore imply that effective utilization of Federal and State Government allocations is essential for promoting sustainable economic growth in Nigeria, while improving the efficiency and accountability of Local Government expenditure may be necessary to enhance its developmental impact.

Table 4.3: Breusch-Godfrey Serial Correlation LM Test

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	0.169750	Prob. F(2,16)	0.8454
Obs*R-squared	0.477891	Prob. Chi-Square(2)	0.7875

Source: Eviews 12.0 Output, 2026

The Breusch-Godfrey tests were used to test for the presence or absence of serial or autocorrelations in the model with the Null hypothesis stating that there is no autocorrelation. This holds if p-value is greater than the chosen level of significance otherwise reject. From table 4.3, the p-value is greater than the chosen level of significance of 5%, indicating the absence of autocorrelation in the model.

Table 4.4: Heteroskedasticity Test: Breusch-Pagan-Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

F-statistic	0.219984	Prob. F(4,18)	0.9238
Obs*R-squared	1.071960	Prob. Chi-Square(4)	0.8987
Scaled explained SS	0.357084	Prob. Chi-Square(4)	0.9858

Source: Eviews 12.0 Output, 2026

The null hypothesis states that there is no heteroskedasticity if p-value is not significant and is greater than the chosen level of significance of 5%. Hence, table 4.4 results prove that we accept the Null hypothesis that there is no evidence of heteroskedasticity since p-value is greater than 5%

Model Stability Tests

The CUSUM and CUSUMSQ tests was used to determine the stability of the OLS model within the 5 % significant level.

CUSUM

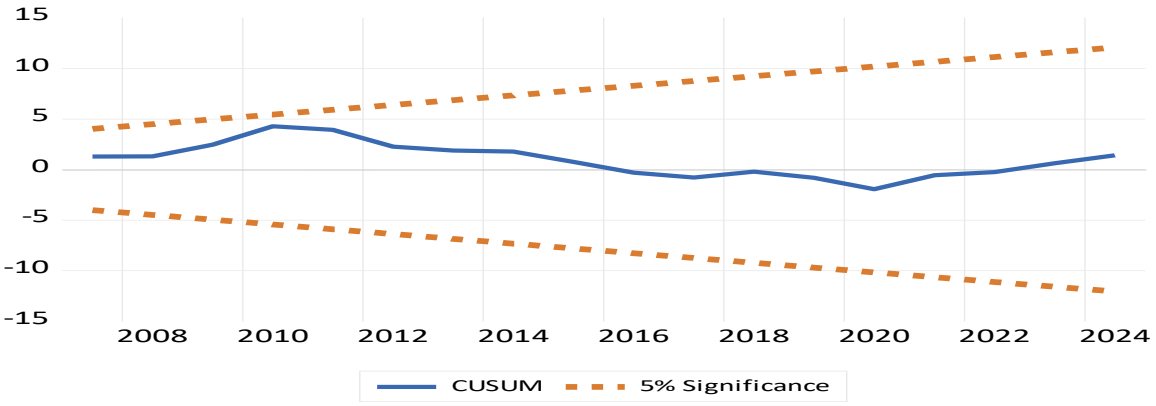

Figure 1: CUSUM
Source: E - views 12.0 Output, 2026

Since the Cusum Test lines are between the five percent (5%) lines, it indicates that the stability of the residuals. So, as the Cusum Test plots lie between the 5% significance level, we conclude that the OLS model equation involving the Effect of Federal Revenue Allocation on the Economic Growth in Nigeria indicates residual stability.

Figure 4.2: CUMSUM of Squares

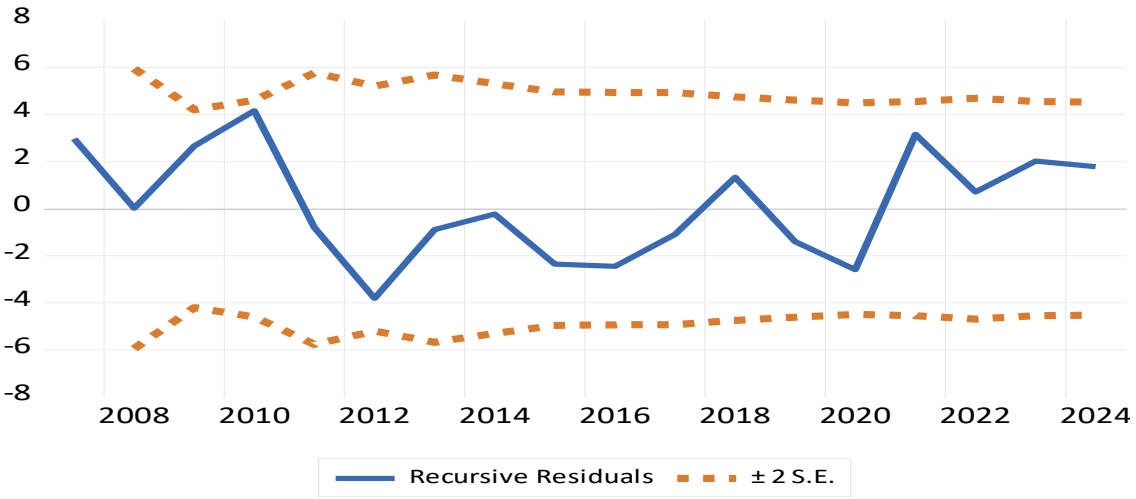

Figure 4.2: CUMSUM of Squares
Source: E - views 12.0 Output, 2026
Since the Cusum of Squares Test lines are between the five percent (5%) lines, it indicates that the stability of the residuals. So, as the Cusum of Squares Test plots lie between the 5% significance level, we conclude that the OLS model equation involving the Effect of Federal Revenue Allocation on the Economic Growth in Nigeria indicates residual stability.

Test of Hypothesis One (H_{01})

H_{01}: There is no significant effect of Federal Government Allocation (FGA) on Real Gross Domestic Product (RGDP) in Nigeria.

H_{11}: There is a significant effect of Federal Government Allocation (FGA) on Real Gross Domestic Product (RGDP) in Nigeria.

Table 4.2 reveals that Federal Government FAAC Allocation [FGA(-2)] has a positive coefficient of 0.305793 with a probability value of 0.0021. Since the probability value is less than the 5 percent significance level ($p < 0.05$), the effect of Federal Government Allocation on Real Gross Domestic Product (RGDP) is statistically significant. The positive coefficient indicates that increases in Federal Government allocations significantly promote economic growth in Nigeria after a two-year lag. This finding suggests that Federal Government allocations stimulate investment in infrastructure, public services, and developmental projects that enhance productive activities and contribute positively to national output.

Decision: Given that Federal Government Allocation has a positive and statistically significant effect on Real Gross Domestic Product (RGDP), the Null Hypothesis (H_{01}), which states that there is no significant effect on Federal Government Allocation on Real Gross Domestic Product in Nigeria, was rejected, while the alternative hypothesis is accepted.

Test of Hypothesis Two (H_{02})

H_{02}: There is no significant effect of State Government Allocation (SGA) on Real Gross Domestic Product (RGDP) in Nigeria.

H_{12}: There is a significant effect of State Government Allocation (SGA) on Real Gross Domestic Product (RGDP) in Nigeria.

As presented in Table 4.2, State Government FAAC Allocation [SGA(-2)] has a positive coefficient of 26.86865 and a probability value of 0.0009. Since the probability value is less than the 5 percent significance level ($p < 0.05$), the effect of State Government Allocation on Real Gross Domestic Product is statistically significant. The positive coefficient indicates that increases in State Government allocations significantly enhance economic growth. This finding reflects the important role of state governments in financing infrastructure development, education, healthcare, agriculture, and other economic activities that stimulate productivity and output across the federation.

Decision: Given that State Government Allocation has a positive and statistically significant effect on Real Gross Domestic Product (RGDP), the Null Hypothesis (H_{02}), which states that there is no significant effect of State Government Allocation on Real Gross Domestic Product in Nigeria, is rejected, while the alternative hypothesis is accepted.

Test of Hypothesis Three (H_{03})

H_{03}: There is no significant effect of Local Government Allocation (LGA) on Real Gross Domestic Product (RGDP) in Nigeria.

H_{13}: There is a significant effect of Local Government Allocation (LGA) on Real Gross Domestic Product (RGDP) in Nigeria.

Table 4.2 further reveals that Local Government FAAC Allocation [LGA(-1)] has a negative coefficient of -8.671063 with a probability value of 0.2322. Although the negative coefficient suggests that increases in Local Government allocations may be associated with a decline in Real Gross Domestic Product, the probability value exceeds the 5 percent significance level ($p > 0.05$). This indicates that the observed negative effect is statistically insignificant and insufficient to establish that Local Government allocations exert a meaningful influence on Nigeria's economic growth during the study period.

Decision: Given that Local Government Allocation has a negative but statistically insignificant effect on Real Gross Domestic Product (RGDP), the Null Hypothesis (H_{03}), which states that there is no significant effect of Local Government Allocation on Real Gross Domestic Product in Nigeria, is accepted, while the alternative hypothesis is rejected.

5.0 DISCUSSION OF FINDINGS

This study examined the effect of Federal Revenue Allocation on Economic Growth in Nigeria using annual time-series data covering the period 2000–2024 and the Ordinary Least Squares (OLS) estimation technique. Real Gross Domestic Product (RGDP) was employed as the proxy for economic growth, while Federal Government Allocation (FGA), State Government Allocation (SGA), and Local Government Allocation (LGA) represented the dimensions of federal revenue allocation. The analysis also incorporated the lagged value of RGDP to capture the dynamic nature of economic growth. The findings provide empirical evidence regarding the extent to which intergovernmental fiscal allocations contribute to Nigeria's economic performance, consistent with the propositions of the Fiscal Federalism Theory.

Federal Government Allocation and Economic Growth

The findings in table 4.2 relating to federal government allocation and real gross domestic product revealed that Federal Government FAAC Allocation has a positive and statistically significant effect on Real Gross Domestic Product (RGDP), with a coefficient of 0.305793 and a probability value of 0.0021. This finding implies that increases in Federal Government allocations significantly promote economic growth in Nigeria, although the effect becomes evident after a two-year lag. The result suggests that Federal Government allocations provide critical financial resources for the execution of capital projects, infrastructure development, public service delivery, and macroeconomic stabilization policies that enhance productive capacity and stimulate economic activities.

The finding highlights the importance of effective fiscal management at the federal level in driving sustainable economic growth. Adequate funding of strategic sectors such as transportation, power, education, healthcare, agriculture, and security creates an enabling environment for private investment and increased economic productivity. Consequently, the study rejects the null hypothesis that there is no significant relationship between Federal Government Allocation and Real Gross Domestic Product, confirming that Federal Government revenue allocation is a significant determinant of economic growth in Nigeria. This finding is in line with the study of Bulus, Hyellafiya, Gamawa; and Nadada (2023) who examined the impact of revenue allocation on economic growth in Nigeria. The study's findings shows that revenue allocation for the Federal government have significant impact on Gross Domestic Product (GDP) in Nigeria, the allocation revenue for the State have negative impact on GDP with 0.17%, the lending interest rate (LINR) also have negative impact on GDP in the long run.

State Government Allocation and Economic Growth

The findings in table 4.2 relating to state government allocation and real gross domestic product found that State Government FAAC Allocation has a positive and statistically significant effect on Real Gross Domestic Product, with a coefficient of 26.86865 and a probability value of 0.0009. This indicates that increases in State Government allocations significantly improve Nigeria's economic growth. The large positive coefficient demonstrates the substantial contribution of state governments to economic development through investments in roads, healthcare, education, agriculture, rural development, and other socio-economic infrastructure.

The significance of this finding underscores the strategic position of state governments in implementing development policies that directly affect economic activities within their jurisdictions. Since state governments are closer to local economic realities, efficient utilization of statutory allocations can stimulate production, generate employment opportunities, improve public welfare, and enhance regional economic integration. Consequently, the null hypothesis that there is no significant relationship between State Government Allocation and Real Gross Domestic Product is rejected. The result supports the Fiscal Federalism Theory, which emphasizes the developmental benefits of fiscal decentralization and effective resource allocation among different levels of government. Also, the result is in consonance with the study of Onyia and Okereke (2019) who investigated the impact of revenue allocation on economic growth in Nigeria using time series data from 1981 to 2016. The study found that revenue allocations to the federal government has a significant positive impact on economic growth in Nigeria for the period studied. Also,

revenue allocations to the state governments have a significant positive impact on economic growth in Nigeria for the period studied.

Local Government Allocation and Economic Growth

The findings in table 4.2 relating to local government allocation and real gross domestic product revealed that Local Government FAAC Allocation has a negative but statistically insignificant effect on Real Gross Domestic Product, with a coefficient of -8.671063 and a probability value of 0.2322. Although the negative coefficient suggests that increases in Local Government allocations may be associated with lower economic growth, the effect is not statistically significant.

The insignificant result implies that allocations to Local Governments have not translated into measurable improvements in Nigeria's economic growth during the study period. This outcome may reflect challenges such as weak financial management, inadequate accountability, poor project implementation, corruption, and inefficient utilization of allocated resources at the local government level. It further suggests that increasing allocations alone may not produce meaningful economic outcomes without improvements in governance, transparency, fiscal discipline, and institutional capacity. Consequently, the null hypothesis that there is no significant relationship between Local Government Allocation and Real Gross Domestic Product is accepted. This finding is in tandem with the study of Ojide and Ogbodo (2015) who carried out a study on the federation account allocation in Nigeria: Implication for growth. The regression result showed that the federal government allocation share and the state governments' internally generated revenue (0.55% and 0.17% respectively) have positive and significant association with economic growth, while the SGAS has a negative and significant relationship with growth (−0.64%). The result of this study suggests that SGAS has a negative impact on economic growth.

6.0 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

This study concludes that federal revenue allocation plays a significant role in promoting economic growth in Nigeria. The empirical findings reveal that allocations to the Federal Government and State Governments contribute positively and significantly to Real Gross Domestic Product, indicating that statutory revenue allocation remains an important fiscal instrument for stimulating economic activities and financing developmental projects across the country. Conversely, Local Government Allocation exhibits a negative but statistically insignificant relationship with economic growth. This suggests that increasing allocations to local governments alone is insufficient to generate meaningful improvements in national output without corresponding improvements in accountability, transparency, institutional capacity, and prudent financial management.

Consistent with the Fiscal Federalism Theory, the findings affirm that effective fiscal decentralization can promote economic development when public resources are efficiently allocated and properly utilized across the three tiers of government. Therefore, strengthening fiscal discipline, improving public expenditure management, enhancing transparency, and ensuring that revenue allocations are directed towards productive investments are essential for maximizing the developmental benefits of Nigeria's federal revenue allocation system and sustaining long-term economic growth.

6.2 Recommendations

Based on the findings of this study, the following recommendations were made:

1. The Federal Government should strengthen fiscal discipline and prioritize the allocation of federal revenues toward productive capital projects such as transportation infrastructure, power supply, education, healthcare, agriculture, and industrial development to sustain long-term economic growth.
2. State Governments should improve the efficiency and accountability in the utilization of statutory allocations by investing more in developmental projects that directly stimulate production, employment generation, rural development, and improved social welfare.

3. The Federal Government and relevant oversight agencies should strengthen monitoring, transparency, and financial accountability mechanisms for Local Government allocations to ensure that allocated funds are effectively utilized for grassroots development and public service delivery.

6.3 Areas for Further Study

To deepen understanding of the relationship between federal revenue allocation and economic growth in Nigeria, future studies should consider the following areas:

1. Examine the effect of internally generated revenue (IGR) and federal revenue allocation on economic growth in Nigeria.
2. Investigate the influence of fiscal transparency, public expenditure efficiency, and institutional quality on the effectiveness of federal revenue allocation in promoting economic growth.
3. Conduct a comparative study of federal revenue allocation and economic growth among selected African countries operating fiscal federalism to identify best practices for revenue sharing and fiscal decentralization.

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