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COMPARATIVE ANALYSIS OF FISCAL DECENTRALIZATION AND ECONOMIC PERFORMANCE OF AKWA IBOM AND CROSS RIVER STATE IN NIGERIA

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ABSTRACT: *This paper analysed the impact of fiscal decentralization on economic growth of Cross river state and Akwa Ibom state in Nigeria using secondary data from joint task board, Revenue Allocation board and national bureau of statistics (NBS) from 2005-2020. The Study adopts SURE model method of Estimation to analyse the results. Finding from the study revealed that Federal Allocation, Internally generated Revenue, Fiscal Autonomy and Population decentralization in Nigeria influences economic growth in Cross river state and Akwa Ibom state. The theoretical expectation that decentralization would improve the economic performance of the selected states in south-south through proximity and regional competition seem not to be found in the study. The flow of fiscal decentralization in Cross river state and Akwa Ibom state in Nigeria seem to follow inefficient application of resources by the political class with increased cost of governance rather than ensuring cost effectiveness in the provision of public services. Therefore, findings from the study revealed that population growth and internally generated revenue are the major determinants of Economic growth in Cross river state while Fiscal Autonomy and Federal allocation contributes infinitesimal to economic growth but not the major determinants of Economic growth in Cross river state. Also findings from the study revealed that Internally generated revenue and Federal allocation are the major determinants of Economic growth in Akwa ibom state while Fiscal Autonomy and population growth contributes infinitesimal but not the major determinant of Economic growth in Akwa ibom state. Therefore the study suggests key Economic reforms to improve transparency and accountability in all sectors of the economic as well as good governance in order to make fiscal decentralization a catalyst for economic growth in Cross river state and Akwa Ibom state of Nigeria. The study also recommends that Policy measures must be put in place to grow the economy using monetary and fiscal policy mix reaction to ensure macroeconomic stability and realisation of macroeconomic goals of economic growth, price stability, low unemployment and balance of payment of states in Nigeria*.

KEYWORDS: Fiscal Decentralization, Economic growth, SURE Model, Cross river state and Akwa ibom state

BACKGROUND AND MOTIVATION

Globally, fiscal decentralization has been noted as a catalyst for economic growth. Both developed and developing countries are attempting to challenge central governments' monopoly of decision-making

power. In the Western world, decentralization is an effective tool for reorganization of the government in order to provide public services cost effectively (Bennett, 1990; Wildasin, 1997). Developing countries are appreciating the idea of decentralization to escape from the traps of ineffective and inefficient governance, macroeconomic instability, and inadequate economic growth (Bird &Vaillancourt,1999). Fiscal decentralization in other words refers to the devolution of fiscal power from the national government to sub national governments which constitute part of reform packages aimed at improving efficiency of the public sector, increasing competition among sub-national governments in delivering public services and stimulating economic growth (Bahl& Linn, 1992).

Nigeria requires fiscal decentralization as a pre-requisite for boosting grassroots participation and ensuring adequate representation in governance. However, after five decades of political independence, Nigeria is still tinkering here and there in search of an efficient structure, which can guarantee grassroots participation and fair representation in governance. This is because the evaluation of the performance of the Nigerian public sector in terms of effective service delivery, especially at the grassroots level reveals a tale of pessimism (Ahmad, 2013). So poor is the institutional mechanism for rural development and so devastating they turn out to be; that even their relevance has been questioned by Nigerians.

To this end, fiscal decentralization involves allocation of functions and financial autonomy across the component unit or governmental levels in a state, i.e. each governmental level should be given financial autonomy to enable it discharge its assigned administrative responsibility. It confers on the component units a power of generating independent revenue so as to meet up with the intricacies of policy implementation. In Nigeria there is a resurgence of interest in public sector reforms. A prominent element in the policy advised to enhance growth and development potentials is the need to restructure the public sector to make it more responsive to efficient and equitable provision of public services and, thereby enhance public sector's contribution to economic growth. However, the relationship between fiscal decentralization and growth is rather complex, whereas more efficient provision of public inputs to production is likely to stimulate growth, it could also make people more willing to pay taxes and thus increases public consumption and lessens private savings which could weaken growth potentials. Fiscal decentralization constitutes an important topical issue in many developed and developing countries. Many countries across the globe have devalued fiscal powers from the central down to lower level governments practically to improve resource allocation and spending among the tiers of government (Oates, 1972; Tanzi, 1995). Hence, this research examines the impact of fiscal decentralization on economic growth in Nigeria.

In Nigeria, fiscal decentralization has generated series of debate and controversy among different scholars in recent years. Debates about fiscal management within federal system are not peculiar to Nigeria. From independence in 1960 till date, Nigeria's fiscal management system has neither been efficient nor equitable (Ike, 1981). Indeed it manifested a wide spectrum of vulnerability, ethnicity, language, region and religion interactively forming Nigeria's matrix of cultural pluralism (Ike, 1981). The Federal Government for more than four decades assumed certain responsibilities which rightly belonged to the lower tiers of government and, in the process, had compromised efficiency in public expenditure management, resulting in high levels of unsustainable overall deficits, high inflation, slow economic growth and poor external sector balance (Ike, 1981; Anyanwu, 1995; Aigbokhan 1999; Chete, 1998).

According to some observers, central governance has failed to adequately provide the expected levels of economic growth, income distribution, poverty alleviation, and provision of public goods and services (Oates, 1972). One economic argument for decentralization stems from the Tie bout Hypothesis according

to which households vote with their feet by moving to local government jurisdictions with the mix of public goods and taxes that maximize their utility. Fiscal decentralization allows localities to provide different mixes of such services so that, in principle, every household can find a locality that offers the bundle of public goods and services that they prefer or desire in equilibrium. To promote economic growth and to provide public services, local communities need funds. Local governments may have to increase taxes to fund their economic growth activities. The drawback of taxation is that it could ultimately lead to a decrease in economic growth. When people are taxed, their disposable personal income decreases and they spend less since their purchasing power also decreases and this could dampen economic growth.

There is the problem of how to allocate revenue vertically to the different tiers of government in relation to the constitutionally assigned functions. The discordance between fiscal capacity of the various levels of government and their expenditure responsibilities, and the non-correspondence problem, is a striking feature of the Nigeria federal finance. There is also the problem of how revenue should be shared horizontally among the states and among the local councils. All these put together have far-reaching implications for the harmonious co-existence of the component units and hence of the system as a geo-political entity (Elaigwu, 1994). The success of a federal system depends on an acceptable distribution of resources and functions among the different tiers of government so that efficiency in the use of scarce resources is encouraged towards achieving macroeconomic stability. It is upon this premise that this study is necessary to empirically investigate the impact of fiscal decentralization on selected states economic growth in Nigeria. The main objective is to examine the impact of fiscal decentralization on selected states economic performance in Nigeria.

The study is relevant in the sense that it will provide an insight on fiscal decentralization and its impact on stated states economic performance in Nigeria. Secondly, the findings of this study will be relevant to government and policy makers when formulating national policies on expenditure and revenue allocation in Nigeria. Thirdly, the study will equally contribute to the existing literature on the impact of fiscal decentralization on economic growth. Finally, the findings of the study will serve as a reference material for subsequent and further research on the subject matter. Researchers and scholars will use the findings and recommendations of this study for policy making or formulation. The study seeks to estimate the impact of fiscal decentralization on economic growth of Akwa Ibom and Cross River State in Nigeria from 2005- 2016. This period is chosen because of huge interest on fiscal decentralization in the captured states in Nigeria.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Fiscal decentralization as a system of political organization has a long history in Nigeria. It predates political independence in 1960 and was used during the colonial era as a means of coping with the cultural diversity that existed in the country in the early 1900s. By 1946 federalism became more prominent, resulting in the creation of regional assemblies in the then western and eastern Regions. Fiscal decentralization in Nigeria has evolved over time, starting with the Phillipson Commission of 1946.The outcome of the commission was the adoption of the derivation principle in sharing revenue which marked the official beginning of inter-governmental fiscal relations in Nigeria.

Following the Phillipson commission, several other commissions were set up. As indicated by Ekpo and Ndebbio (1996), several factors could influence the operational modalities of a decentralized polity. They could be historical, political, economic, geographic, cultural and social. While the economic, geographic, cultural and social factors are clearly subsumed in the level of autonomy of sub-national governments in

carrying out various development and growth oriented tasks, the historical and political issues are seemingly extraneous. Decentralization of the fiscal structure determined by historical and political forces may have significant bearing on the functioning of a country's fiscal system.

Nigeria had adopted a decentralized system of governance before independence; however, the component units were further decentralized in 1967 as a check to the power wielded by the Eastern Region in May 1967. The former four regions were broken into a twelve state Federal Structure in 1967. Before 1967, the regions were less dependent on the Federal government. The revenue allocation formula at that time allowed regions to collect petroleum profit tax, airport and produce sale/purchase taxes, and custom and excise taxes. Decree 13 of 1970, reduced the export duties going to the states (through the DPA) from 100 percent to 60 percent, fuel duty from 100 percent to 50 percent, and mining rents and royalties from 50 percent to 45 percent. With the creation of additional seven states by the Murtala Mohammed administration on 1 April, 1976 these sources of revenues were either entirely withdrawn or reduced to a position of insignificance in the revenue structure of the states. Evidently, the number of states, after several breakdowns of existing units was increased to 36 in 1996. The reason here is that Nigeria's Federalism was not designed as a means for effective service delivery; rather it was structured towards enhancing the unity of the diverse ethnic groups comprising the Nigerian Nation. With the revenue allocation heavily uneven in favour of the Federal government no sub-national government or cliques of sub-national governments could wield enough financial power to effectively break away from the Federation, unless there is external support (Egwaikhide and Ekpo, 1999; Mbanefoh, 1993; Oriakhi, 2006).
On the whole, in Nigeria, there are certain challenges facing intergovernmental relations. These include fiscal autonomy and independence, the federation account, the derivation fund and problems of the oil-producing areas. A robust treatment of these issues by policy-makers will result in a fair and just resolution of the problems confronting the different tiers of government and enhance their role in providing effective service delivery (Egwaikhide and Ekpo, 1999).

Review of Revenue Allocation Experience in Nigeria
The history of revenue allocation in Nigeria was considered under three phases.

The First Phase of Revenue Allocation (1946-1967)
The first phase of revenue allocation was characterized by reports and recommendations of ad-hoc fiscal commissions which in turn depended on the nature and form of past constitutional arrangements. The task of the early fiscal commissions, from Phillipson Commission of 1946 to Sir Louis Chicks Commission of 1954 was limited to allocating equitably to the regional governments total "non-declared" revenue (consisting mainly of import and export duties and excise and company taxes) which, under the Constitution, was determined by the central government. All the commissions generally chose derivation as a major/single criterion for allocating block grants from "non-declared" central revenues. According to the Phillipson Commission, each region's share was strictly calculated in accordance with its contribution to such revenue and their respective shares were as follows: North, 46 per cent; West, 30 per cent and East, 24 per cent.

The Hick-Phillipson Commission (1950) shared non-declared revenue on the basis of derivation just like the Phillipson Commission, except that 50 per cent of revenue from tobacco was shared to the regions on the basis of consumption. In addition, the central government's grants were made to each region on the basis of the number of male tax-payers in its population. The Sir Louis Chicks Commission (1954) slightly modified the earlier positions in two respects, that is, excise tax and 100 per cent import duties on motor

spirit were added to the revenue to be shared on the basis of derivation. As a result of the dissatisfaction with the system of revenue allocation developed so far, particularly the Chick Commission Report and the 1951 Constitutional Conference, another Commission was appointed in 1958 under the Chairmanship of Sir Jeremy Raisman. The Report of this Commission, which was accepted by government, laid a solid foundation for the present tax and revenue allocation policies until the creation of the federation account (FA) in 1979. The main features of Raisman's Report were as follows:

a. Creation of the Distributable Pool Account (DPA) which consisted of the following statutory payments – 30 per cent of general import revenue and 30 per cent of mining rents and royalties. The DPA, so composed, was shared among the regions as follows: North, 40 per cent; East, 31 per cent; West, 24 per cent and South Cameroons, 5 per cent. In 1961, South Cameroons left the federation, and the DPA was redistributed as follows: North, 40/95; East, 31/95; and West, 24/95. In 1963, when the Mid-West was created the share of the then Western Region was divided between it and the new region in the ratio of 3:1

b. the remaining mining rent and royalties were allocated as follows: 50 per cent to the region of origin and 20 per cent to the federal government which was also allocated 70 per cent of general revenue;

c. the federal government was given exclusive jurisdiction over customs and excise duties, sales tax (except on produce, hides and skins, and motor fuel), rents and royalties and Lagos income tax, and;

d. the regions were given control over personal (individual) income tax, produce sales tax, marketing boards and sales tax on motor fuel. The 1964 Binns Commission increased mining rents and royalties paid into the DPA from 30 per cent to 35 per cent. The DPA, so composed, was distributed as follows: North, 42 per cent; East, 30 per cent; West, 20 per cent and Mid-West, 8 per cent.

The Second Phase of Revenue Allocation (1967-1979)

Following the creation of 12 states in May 1967, the Constitutional (Financial Provisions) Decree No. 15 of 1967 was promulgated to share the revenue in the Distributable Pool Account (DPA) among the new states as follows: East Central, 17.5 per cent; Lagos, 2 per cent; Mid-West, 8 per cent; the six Northern states; 7 per cent; South Eastern, 7.5 per cent; Rivers, 5 per cent; West, 18 per cent. The decree did not apply any uniform principle to all states. In particular, it failed to take cognizance of the key elements which formed the basis of the previous allocations of revenue among the regions, namely; Population, derivation, consumption, among others. Subsequent decrees between 1970 and 1975 aimed at correcting the anomalies of Decree No. 15 of 1967, by reallocating revenue to states on a more equitable basis. Decree no. 13 of 1970 (which took effect retroactively from April, 1969), Decree No. 9 of 1971 and the revenue allocation arrangement which took effect from 1st April, 1975 had the following features:

a. The newly enlarged Distributable Pool Account (DPA), which consisted of 80 per cent of onshore mining rents and royalties, was shared on the basis of consumption (customs and excise duties) including all offshore mining royalties previously enjoyed only by the federal government;
b. The derivation principle, as applied to sharing of oil and non-oil revenue, was de-emphasized. For example, by 1975, revenue payable to states on the basis of derivation, such as mining rents and royalties, was reduced from 45 per cent to 20 per cent;
c. A simplified system of revenue sharing among the states was introduced in 1969 and used up to 1980. These principles were; equality of states, 50 per cent; and population (which also subsumed the principle of basic needs), 50 per cent; and

d. From 1975 the military government abolished constitutional arrangements as the basis for revenue allocation. Instead, the federal government vested itself with the power to determine a logical time frame for reviewing and sharing of revenues among the various tiers of government in the federation. Thus, between 1976 and 1979, revenue allocation was streamlined as follows: the federal government retained all the revenue from petroleum profit tax and company tax, 65 per cent of import duties (excluding tobacco, alcohol, motor spirit and diesel) and 50 per cent excise tax; while the Distributable Pool Account (DPA), which consisted of the remaining import and excise taxes, offshore royalties and 80 per cent onshore royalties, was shared on the basis of population, 50 per cent and equality of states, 50 per cent; while 20 per cent of royalties (onshore) was paid to states on the basis of derivation.

The Third Phase of Revenue Allocation (1979-1999)

Following the provisions of Section 149-150 of the 1999 Constitution, revenue sharing once more became a constitutional issue. Section 149(i) specifically created the "federation account" into which all revenues collected by the government of the federation was paid, except the proceeds of personal income tax of the armed forces, the Nigerian Police, staff of the Ministry of External Affairs and residents of the Federal Capital Territory (FCT).

Section 149 (ii) states 101 that the revenue in the federation account (FA) should be shared among the federal, state and local governments in a manner to be determined by the National Assembly. In a bid to boost the revenue of government the value added tax (VAT) was introduced in Nigeria on January 1, 1994, following the recommendations of a Study Group set up by government on the reform of indirect taxation in Nigeria. VAT was introduced to wholly replace sales tax, which hitherto was a state government tax. VAT is aimed primarily at enhancing the revenue of all tiers of government since it is more broadly based than the original sales tax and also covers more categories of goods and services. It has a single rate of 5 percent for all goods and services. The sharing formula for VAT revenue has changed nearly every year since its introduction. In 1994, the federal share was 20 per cent and states, 80 per cent. In 1995, the federal share increased to 50 per cent while those of states and local governments were 25 per cent each. Following the agitation by states for more revenue from VAT, however, the formula was changed in April of the same year (1995) to Federal, 40 per cent; States, 35 per cent and Local governments, 25 per cent. In 1996, the rates were again changed as follows: Federal, 35 per cent; States, 40 per cent and Local governments, 25 per cent. In 1999, the rates were: Federal, 15 per cent; States, 50 per cent; and Local governments, 35 per cent. These rates are still in use till date. VAT revenue accruing to states and local governments are shared on the basis of states/local governments of origin, 30 per cent; consumption and destination, 30 per cent and equality of states/local governments, 40 per cent. The analysis, so far, clearly shows that between 1970 and 1999, the principle of derivation played an insignificant role in the horizontal distribution of federal revenue. For example, only 1.5 per cent was allocated on the basis of derivation in 1990. However, the figure was adjusted to 13 per cent in the 1999 constitution. The revenue sharing formula has always been in favour of the Federal government, compared with its expenditure requirements. Moreover, the persistent refusal of the state governments to honour their own obligation as regards the expected allocation of 10 per cent of their internally-generated revenue to the councils constitutes a new challenge for macroeconomic governance in Nigeria.

Also, experience has shown that revenue allocation presents the most intractable problem in Nigeria's fiscal federalism. There is no generally acceptable formula for both vertical and horizontal distribution of revenue. The issue is that the federal government takes its lion's share of centrally collected revenue based on the current formula and other retained revenue, leaving state and local governments with small shares compared to their assigned functions.

The summary of the major features of the reports of commission's recommendation of various revenue allocation commissions and military legislations in Nigeria from 1946-2009 are presented below:

Table.2.1: Revenue Allocation Commission and Recommendation of various Commissions

Commissions	**Recommended Criteria**	**Other basic features of recommendations**
Phillipson, 1946	i) Derivation. ii) even progress	Balance after meeting central Government's budgetary need allocated to regions
Hicks- Phillipson, 1950	i) Derivation. ii) fiscal autonomy iii) Needs, and iv) National interest	Proportion of specified duties and taxes allocated to regions on the basis of derivation, special grant capitalization, education and police
Chick, 1954	i)Derivation ii) fiscal autonomy	Bulk of revenues from import duties and excise to the regions on the basis of consumption and derivation.
Raisman, 1958	i) Derivation ii) fiscal autonomy. iii) Balance development iv) Need	Proportion of specified revenues distributed on the basis of derivation. creation of distributable pool account (DPA) with fixed regional
		proportional shares: North 40%, west 31%, east 24%, and Southern Cameroun 5%.
Binns, 1964	Same as above plus financial comparability	Composition of DPA relative share slightly altered, North 42%, East 30%, West 20% and Mid-West 8%
Diana 1968	i)Even development ii) Derivation iii) Need iv) minimum responsibility of government	Special grant account introduced, recommended the establishment planning and fiscal commission. Recommendation rejected.

Decree No. 13 of 1970	i)population 50% ii)Equality of states 50%	Export duties states reduced from 100% to 60%.
Decree No. 9 of 1971	Same as above	Transferred rents and royalties of offshore petroleum mines from the states to the federal government.
Decree No. 6 of 1975	Same as above	Onshore mining rents and royalties to states reduced from 45% to 20%. Remaining 80% to the DPA. Import duties on motor spirit and tobacco to be paid 100% into the DPA. 50 0f excise duties to be retained by the federal Government, 100% to DPA.
Decree No. 15 of 1976	Same as above	Regional proportion share of DPA split among the 12 new states, 6 Northern states receive 7% each, East and Western states share in accordance with relative population
Aboyade, 1977	i)Equality of access 25%. ii) National minimum standard 22% iii) Absorption Capacity 20% iv) Independent revenue 18% v) Fiscal efficiency 15%	Replaced DPA with federation account. Fixed proportional share ot of this account between the federal 57%, states 30%, Local Government joint account created.
1981 Act	Same as above	Federation account to be shared: federal Government 55%, State Government 30.5%, Local Government 10%, special fund 4.5%
Decree No. 49 of 1989	Same as above	Federation account to be shared: federal Government 55%, State Government 32.5%, Local Government 10%, special fund 2.5%
Danjuma Commission 1989	Same as above	Equality of states 40%. Population 30%. Social development effort 10%. Tax effort 10%. Land mass%.
Decree No. 49 of 1989	i)Equality of states 40%. ii) Population 30% iii) Internal revenue effort iv) Land mass v) Social Development factor 10%	Federation account to be shared: federal Government 47%, State Government 10%, Local Government 15%, special fund 8%
Decree No. 3 of January 1992	Same as above	Federation account to be shared: federal Government 50%, State Government 25%, Local Government 20%, special fund 7%
2009	Same as above	Federation account to be shared: federal Government 48.5%, State Government 24%, Local Government 20%, special fund 7%

Source: Otaha, 2010

From the foregoing, it is apparent that in any federal state, a formula is usually devised to share the revenue of federation between the federal government and the governments of the component units on the one hand and among the governments of the component units on the other (Oyovbaire, 1991). Revenue allocation is no doubt part of the processes of fiscal federalism. Typically the challenges of fiscal decentralization in Nigeria hinge on the equality of the expenditure assignment and revenue-raising functions amongst the three tiers of government. The revenue sharing and expenditure assignment formula has been generally inadequate in addressing the needs and resource gap in the three tiers of government.

The strategy and institutional arrangement for redressing the mismatch have been approached incrementally over the years. Considering this foregoing arguments, the major challenge of fiscal decentralization and revenue allocation commission in Nigeria is to ensure equitable distribution of resources to all groups that make up the nation.

Conceptual Basis for Tax and Revenue Sharing Arrangements

The two main issues of fiscal decentralization are tax assignment and revenue sharing. We shall assume that the allocation of resources between the two sectors has been concluded and that the concern is with how to raise a given sum of revenue and shared the proceeds between the various tiers of government.

An important question the study seeks to address from the onset is whether revenue generation should be centralized or decentralized? For convenience, let us assume that all revenues are generated from taxes. There are three distinct options here, namely, to collect all taxes centrally; to allow sub national governments to collect the taxes; or to assign taxing powers to each and every tier of government (Tanzi, 1995; Taiwo, 1999). Central collection of taxes tends to be consistent with the pursuit of the distribution and stabilization functions of government, and also the provision of national public goods, all of which are assigned to the central government. This system is also likely to generate economies of scale in tax administration and prevent revenue loss due to the mobility of taxpayers from one locality to another if such taxes were collected locally. The system is also desirable when considerable weight is attached to tax uniformity across jurisdictions. On the other hand, a decentralized system of tax collection would be more likely to make spending decisions at the grass root level more compatible with available resources. It could, therefore, promote accountability and responsibility as well as the efficient provision of local public goods. This system can also encourage fiscal autonomy and tax competition among localities. Neither of these alternative systems is capable of reaping both sets of advantages. Consequently, like the allocation of government functions to the various tiers of government, revenue or tax collection should be shared between all tiers of government. Put differently, decentralization of functions should be matched by decentralization of revenue collection. In fact, fiscal decentralization literature suggests that expenditure assignment should precede tax assignment. This is because tax assignment would generally be guided by expenditure requirement of different levels of government and these cannot be worked out in advance of expenditure responsibilities. Absence of tax assignment would result in dependence on the federal government by lower levels of government. It is recognized, however, that the two assignments need not correspond exactly. Intergovernmental transfers could be used to make up the difference (Aigbokhan, 1999) Tax assignment considers the levels of government that should tax what and how, thereby providing various levels of government with revenue they can control. Tax assignment has four main attributes, namely, power to legislate and set rates, fiscal authority over tax bases, the administration of the tax, and the right to revenue collected (McClure, 1995; Vincent, 2001). It is hardly the case that all of these aspects are treated the same way, in terms of the degree of decentralization.

It is also important to ask: given the collection system, which sources of funds should be shared and how is the sharing supposed to be done? The choice here is largely between tax base sharing and revenue sharing. Let us consider first, the issue of tax sharing. Which tax bases should be shared to sub national governments? A good tax should have certain qualities like efficiency, equity, revenue adequacy; low administration cost and is able to promote economic stability (Edame, 2011). However, at the grassroots level where attention is focused on the provision of local goods, only three of these attributes are really important. They are efficiency, revenue adequacy and administration cost. Virtually all taxes are based on either the ability-to-pay principle or the benefit principle. A meaningful comparison of these principles would require that we hold the tax yield or revenue constant. Since the ability-to-pay principle is geared toward equity issues and the benefit principle towards efficiency issues, it appears that the benefit principle

has an edge over and above the ability-to-pay principle in the provision of local goods. This is particularly so if the administration cost is the same for both principles. Charges that are based on the benefit principle can take the form of benefit taxes or user charges. The former would be more appropriate for the provision of public goods, and the latter for the provision of publicly-provided private goods. If such taxes and user charges exist, tax sharing then has the advantage of enhancing the efficient allocation of resources in a locality. For fiscal federalism to succeed there must be fiscal authority over changing the tax bases allocated the different tiers of government. In practice, however, limited autonomy is given to the lower tiers of government in this area so that a uniform rate of taxation can be maintained across the country (Vincent, 2001; Aigbokhan, 1999). As a guide, equity (consistency of revenue means with expenditure needs) and efficiency (minimizing resources cost) criteria suggest that the following principles be used for the assignment of tax bases:

- Progressive and redistributive taxes should be centralized, such as personal income tax and corporate income tax;
- Taxes suitable for economic stabilization, such as import duties, should also be centralized;
- Taxes on mobile factors of production such as gains taxes should be centralized;
- Residence-based taxes, such as sales/excise and retail taxes are best suited for states;
- Benefit taxes/user charges are usually assigned to the level of government that provides the services such as toll gate levies, hospital and education fees, and motor licences;
- Taxes on immobile factors of production, such as land and buildings (property taxes) are assigned to local governments; and
- Taxes on natural resources should be assigned to the central government, for the sake of administrative efficiency and uniform practice since the major projects in this field often involve big transnational corporations.

Justification for Fiscal Decentralization

As stated by Tanzi (1996), "the main economic justification for decentralization rests largely on allocation or efficiency grounds". With fiscal decentralization, local governments are likely to provide different combinations of public goods and services since they are more likely than centralized governments to take into consideration the different tastes of residents. Proponents of decentralization believe that economic efficiency is achieved by decentralized governments because they provide the mix of output (goods and services) that best reflect the preferences of individuals living in the community (Oates, 1972). Centralized governments on the contrary are more likely to provide a uniform package of output products across all jurisdictions. If individuals have variations in their consumption preferences, then the centralized provision of uniform output will result in inefficient resource allocation. Thus as stated by Oates (1972), "a decentralized form of government therefore offers the promise of increasing economic efficiency by providing a range of outputs of certain public goods that corresponds more closely to the differing tastes of groups of consumers".

Local provision of public goods could also be associated with lower administrative overheads because agency and monitoring costs are likely to be lower (Oates, 1999).In addition to benefits from economic efficiency, fiscal decentralization is also thought to increase accountability of local officials, especially when they are elected (Oates, 1999). Government officials are more likely to allocate resources efficiently and do their best to provide optimal levels of economic development and public services when they are closer to the electorate. Otherwise, they risk the chance of not being re-elected. Also, when local jurisdictions have to fund the services they provide, they are more likely to do so at a cost efficient level

where the marginal benefit equals the marginal cost if services are decentralized rather than centralized (Tanzi, 1996).

According to Thiessen (2001), central governments could be more inclined to spend less on issues of local concern such as education, child care, and local infrastructure and rather concentrate more on national defence. Under fiscal decentralization, local communities serve as "research labs" for the rest of the country (Osborne, 1988). Decentralization allows experimentation and innovation in the public-service production process (Tanzi, 1996). Local experimentation may lead to increased technological progress in the production of governmental goods and services and public policy (Oates 1999). When local communities develop and implement economic development programs in a decentralized system, programs are first implemented on a relatively small scale. If the program is a success, then other parts of the country may adopt it, too. However, if the program fails to meet its objectives, then only a few local communities will suffer rather than the whole nation. According to Oates (1999), the recent legislation that transfers the responsibility for welfare programs to the states represents a recognition of the failure of existing programs and an attempt to make use of the states as 'laboratories' to find out what sorts of programs work best.

The experimentation with different service production processes by local governments can lead to gains from competition among local governments (Oates, 1999).Competition is an advantage when it leads local governments to adopt more efficient technologies of production than they had previously used. Oates argues that with a highly centralized government that provides all public goods with little or no competition, it is likely that there will be little or no incentive to be innovative and efficient.

Empirical Literature

Fiscal Decentralization is considered as a very crucial approach for efficiency gains by enabling a direct link between local provision of services and local tastes (Oates 1972, 1993). It is then expected that fiscal decentralization helps promote economic growth. Numerous studies examined empirically the relationship between decentralization and economic growth.

Among these are Davoodi and Zou (1998) use panel data from 1970 – 1989 for 46 countries to study the effect of fiscal decentralization on economic growth. They estimate an ordinary least squares (OLS) model in which the dependent variable is the per capita GDP growth rate, and the independent variables are human capital (measured by secondary school enrolment rate), GDP, average tax rate, population growth, fiscal decentralization, and country and time fixed effects. The study uses data from national and sub national government levels. They found a negative relationship between fiscal decentralization and growth in developing countries but no relationship in developed countries.

Zhang and Zou (1998) examined a panel of 28 Chinese provinces during the period 1980-1992. The dependent variable used is the provincial income growth rate and the independent variables are measures of fiscal decentralization, investment rate, and growth rate of labour, share of total volume of foreign trade in province income, inflation rate, tax rates, and provincial fixed effects. Using a least square regression model, they found a negative relationship between fiscal decentralization and economic growth. Xie, Zou and Davoodi (1999) found a similar relationship for the U.S. after examining time series data from 1948 to 1994. They found out that there is a positive relationship between fiscal decentralization and economic growth.

Lin and Liu (2000) use panel data on China's provinces. The data span a 23 year period starting from 1970. The dependent variable is GDP and the independent variables used include measures of fiscal decentralization, rural reform, price of farm products compared to non-farm products, per capital real gross domestic product, population, the rural population share, share of non-state-owned enterprises in total industrial output, growth rate of per capita investment, and provincial dummies. The results indicate a positive relation between fiscal decentralization and growth .Neyapti (2005) examined the links between fiscal decentralization and socio-economic indicators in Turkish provinces. Overall, she found a favourable impact of fiscal decentralization, with a positive relationship with the level and growth rate of output. Neyapti's empirical analysis was constrained, however, by data limitations regarding the fiscal decentralization data that only allowed cross-sectional analyses for the years 1995 and 1998.

Akai and Sakata (2002) pointed to the importance of controlling for historical or cultural differences between observations and using a period of relatively lower growth in a decentralization study. To improve on the data problems of other studies, they used data from 50 U.S. states for the period 1992-1996. They found evidence of positive contribution of fiscal decentralization to economic growth.

Stansel (2005) extended the local government empirical literature by examining the link between local decentralization and local economic growth using a new dataset of 314 U.S. metropolitan statistical areas. He found a negative and significant relationship between the central city share of metro population and population and real per capita income growth and a positive and significant relationship between the number of county governments per resident and population and real per capita income growth. Hence, his study shows evidence of a positive relationship between local decentralization and metropolitan statistical area economic growth. Martinez-Vazquez and McNab (2003) concluded that there is no empirical consensus on the relationship between decentralization and economic growth.

Feltenstein and Iwata (2005) gave an empirical investigation of the impact of fiscal and economic decentralization in China on the country's economic growth and inflation, using a vector autoregressive (VAR) model with latent variables. Their results showed that economic decentralization appeared to be positively related to growth in real output for the entire post-war period in China. However, fiscal decentralization seemed to have adverse effect on price stability and positive on economic growth.

Aigbokhan (1999) found a negative influence of fiscal decentralization on the economic growth of Nigeria, using various measures of fiscal decentralization and a Barro-type endogenous growth model. Udah and Ndiyo (2011) investigated the impact of fiscal decentralization on macroeconomic stability, economic growth and external balance. Their results showed that both revenue and expenditure decentralization negatively influence economic growth.

Khaleghian (2003) investigated the impact of decentralization on the provision of a basic public service, health. He used a time series data set of 140 low and middle income countries from 1980 to 1997. The result shows that decentralization led to higher coverage rates than centralized ones, with an average difference of 8.5 percent for measles and DTP3 vaccines immunization. This implies that decentralization influences positively health service delivery in low income countries and therefore the development of human resource.

Oates (1999) found a significant and robust positive correlation between fiscal decentralization and economic growth. Shahdani et al (2012) find a linear positive relationship between expenditure decentralization and economic growth; however revenue decentralization appears to have nonlinear

positive effect on economic growth. Iimi (2005) using the instrument variables technique finds that fiscal decentralization has a significant positive impact on per capita GDP growth. Sakata (2002) found robust evidence that fiscal decentralization contributes to economic growth in United States.
Ismail and Hamzah (2006) using a production function based estimation framework and cross-section data for Indonesia found a positive and significant relationship between expenditure decentralization and economic growth, and a negative insignificant relationship between revenue decentralization and economic growth. Yilma (1999) found a significant positive relationship between fiscal decentralization and per capita growth for unitary countries, while the results for federal countries are inconclusive.

Woller and Phillips (1998) found no significant and robust relationship in LDCs but detected a weak relationship between the revenue share and growth. The findings in the empirical literature on the nature of the relationship between fiscal decentralization and economic growth in Nigeria are mixed and inconclusive. Ewetan (2011) using time series data in a study on Nigeria from 1970 to 2007 finds that fiscal decentralization has a significant positive impact on economic growth.

Philip and Isah (2012) used three different measures of decentralization in their study on Nigeria. They found a non-significant positive relationship between revenue decentralization and economic growth, and a significant negative relationship between expenditure decentralization and economic growth.

Jin and Zou (2002) examine how fiscal decentralization affects government size. They used a cross-country panel data with three levels of government. Their methodology involves two models; a fixed effects model and a feasible generalized least squares (FGLS) model. Government size is the dependent variable. Independent variables include GDP, fiscal decentralization, urbanization (measured by urban population as a share of total population), openness of the national economy (measured by the sum of exports and imports as a percentage of GDP), and country fixed effects. They used dummy variables for whether the country is a federation, has elected officials, has constraints on sub national government borrowing, and has an independent central bank. If the central bank governor does not change within six months of a change in political leadership of the country, the central bank is considered to be independent. The study concludes that fiscal decentralization leads to bigger sized sub national governments. Bigger sized governments are presumed by the authors to be less efficient and less cost effective.

Ubogu (1982), in a study based on cross-sectional data of Nigeria's former twelve states find that variations in fiscal decentralization among the states are highly influenced by factors such as federal government transfers or allocations, degree of urbanization and share of agriculture in each state's capital formation.

Joulfaian and Marlow (1990) tested the decentralization hypothesis using a cross-sectional methodology, and find evidence in support of the Brennan and Buchanan (1980) "Leviathan" hypothesis that fiscal decentralization serves as a constraint on the behaviour of the revenue-maximizing government. Ojo and Okunrounmu (1992) investigate the role of fiscal decentralization in developing countries with specific reference to Nigeria and observe that the Nigeria's narrow revenue base could not withstand the weight of public expenditure and investment. They find that fiscal decentralization increased macroeconomic instability and the public debt burden escalated. Ewetan et al (2016) examines the long run and causal relationship between fiscal decentralization and economic growth in Nigeria from 1970-2012 using time series data. They found out that fiscal decentralization have a positive and significant relationship with economic growth in Nigeria.

Theoretical Framework

Tiebout's model of local public good provision

The Tiebout's model was first described by economist Charles Tiebout in his article titled "A pure theory of local expenditure" in 1956. The theory states that decentralisation coupled with mobile households solves the problem of the efficient provision of public goods. Essentially local governments compete in offering a mix of tax and public goods, and citizens "choose by their feet", deciding where to live according to their preferences about tax and public goods. The Tiebout model relies on a set of basic assumptions. The primary assumptions are that consumers are free to choose their communities, can move freely (at no cost) across towns, have perfect information, and there is equal financing of public goods. This essentially means that they can move from community to community at no cost, and that they know everything they need to know about services provided by local governments and the tax rates of all local governments. Further, the model requires that there be enough towns so that individuals can sort themselves into groups with similar preferences for public goods. For these reasons, the Tiebout model has been shown to be most accurate in suburban areas with many different independent communities. Moving between communities in these areas tends to have the lowest costs, and the set of possible choices is very diverse. In areas subject to rural flooding, Tiebout sorting explains why more affluent residents live in communities protected by river levees, while poorer residents tend to live without those expensive and rarely utilized protections. Lastly, the model also assumes that there are not externalities or spill over of public goods across towns.

The exact assumptions Tiebout made in his first statement of the model were:

1. Mobile consumers, who are free to choose where they live, There are no costs associated with moving.
2. Complete information.
3. Many communities to choose from.
4. Commuting is not an issue.
5. Public goods do not spill over in terms of benefits/costs from one community to the next.
6. An optimal city size exists: economies of scale.
7. Communities try to achieve "optimal size".
8. Communities are rational and try to keep the public "bad" consumers away.

Leviathan hypothesis

Geoffrey Brennan and James Buchanan developed the Leviathan model of government in their book titled "The Power of Tax" in 1980. According to them, fiscal decentralisation is a mechanism for constraining the expansionary tendencies of governments. Under this approach central governments do not maximise social welfare and operate like monopolists in order to increase their control over the economy's resources. The framework reveals that the distinctive feature of the Leviathan models is that the government acts solely on the behalf of a subset of the population called rulers. Selfish rulers choose the supply of public goods and set tax rates on all goods within the tax base, but cannot choose the tax base. The tax base is established by the subjects in a constitution that rulers are bound to respect. If all goods could be taxed, the rulers would set rates high enough to expropriate the entire wealth of the subjects. They cannot do so when some goods are excluded from the tax base, because high rates on goods within the permitted base provoke subjects to divert expenditures from taxed to untaxed goods.

The Leviathan model predicts that the overall size of the public sector should inversely vary with decentralization. Therefore, the argument in favour of fiscal decentralization is twofold:

(1) Fiscal decentralization will increase competition among the local governments which will ultimately limit the size of the public sector; and
(2) Fiscal decentralization will increase efficiency because local governments have better information about their residents‟ needs than the central government.
Therefore, on the crucial assumption that households and firms are mobile, splitting the central government in many local governments and introducing fiscal competition among them through a decentralised fiscal system should produce the same effect of explicit fiscal constraints on the central government's taxing power.

Summary of literature and research gap

A summary of the literature reviewed showed that several studies have been carried out on the impact of fiscal decentralization on economic growth in Nigeria by so many scholars such as Philip and Isah (2012), Aigbokhan(1999), Udah and Ndiyo(2011), Ojo and Okunrounmu(1992) Ewetan et al(2016) and so on. This study is unique and different from other studies because of the time frame, the method and analytical techniques employed in estimating the impact of fiscal decentralization on selected states economic performance in Nigeria using sure model which is the gaps this study seeks to fill.

DATA AND METHODOLOGY

This study employs the Seemingly Unrelated Regression Equations (SURE) in the modeling of equations for this study. A seemingly unrelated regression equation (SURE) according to Roger Moon, Ghosh et al (2006) is a system of equations comprising several individual relationships that are linked by the fact that their disturbances are correlated. The SURE model can be expressed analytically by considering a model comprising of M multiple regression equations of the form:

$$y_{ti} = \sum_{j=1}^{ki} x_{tij}\beta_{ij} + \varepsilon_{ti}, t = 1,2,...,T; i = 1,2,...,M; j = 1,2,....,K_i \qquad 4.3$$

Where: y_{ti} is the t^{th} observation on the i^{th} dependent variable which is to be explained by the i^{th} regression equation, X_{tij} is the i^{th} observation on j^{th} explanatory variable appearing in the i^{th} equation, β_{ij} is the coefficient associated with X_{tij} at each observation and ε_{ti} is the i^{th} value of the random error component associated with equation of the model.
The M system of equations can be expressed in a compact way as:

$$Y_i = X_i\beta_i + \varepsilon_i,\ I = 1,2,\ldots,M \qquad 4.4$$

Where: y_i is (T x 1) vector with element y_{ti}; X_i is (T x K_i) matrix whose columns represent the T observations on an explanatory variable in the i^{th} equation; β_i is a (K_i x 1) vector with elements β_{ij}; and ε_i is a (T x 1) vector of disturbances.
The M equations can be further expressed as:

$$\begin{bmatrix} y_1 \\ y_2 \\ . \\ . \\ . \\ y_3 \end{bmatrix} = \begin{bmatrix} X_1 & 0 \ldots\ldots\ldots\ldots & 0 \\ 0 & X_2 \ldots\ldots\ldots\ldots & 0 \\ . & . & . \\ . & . & . \\ . & . & . \\ 0 & 0 \ldots\ldots\ldots\ldots & X_M \end{bmatrix} \begin{bmatrix} \beta_1 \\ \beta_2 \\ . \\ . \\ . \\ \beta_3 \end{bmatrix} + \begin{bmatrix} \varepsilon_1 \\ \varepsilon_2 \\ \\ \\ \\ \varepsilon_3 \end{bmatrix} \qquad 4.5$$

Or

$$Y = X\beta + \boldsymbol{\varepsilon} \qquad 4.6$$

Where the order of Y is (TM x 1), X is (TM x K*), β is (K* x 1), ε is (TM x 1) and $K^* = \sum_i K_i$

The study is anchored on the **Tiebout's model**. **The theory states that decentralization coupled with mobile households solves the problem of the efficient provision of public goods.** The model can be structured and represented as thus:

$Y = f(L, K_P, K_{G,} F_P)$ ---------- (1)

GDP= F (POP, IGR, FISA, FAAC) ---------- (2)

GDP= Gross Domestic Product of selected states
POP= Population of selected states
IGR=Internally generated revenue of selected states
FAAC: Federal Allocation of selected states
FISA= Fiscal autonomy selected states
U= Stochastic error term
t= time dimension of the variables
Therefore, the models can be rewritten as:

$RGDP = a_0 + a_1POP + a_2IGR + a_3FAAC + a_4FISA + \mu$ ---------- (3)

The parameters to be estimated are $a_1, a_2, a_{3,} a_4 > 0$

The Correlation Matrix Test

The Correlation matrix test was conducted to choose either OLS or SURE estimation methods. Also Simultaneous covariance testing was employed to investigate whether there are correlations between SURE errors. For the simultaneous covariance test, r(ij) values are calculated. Firstly variance-covariance and correlation matrices are calculated from the errors obtained from the SURE method to show how sure model is appropriate

RESULTS AND DISCISSION OF FINDINGS

Table 4.1. UNIT ROOT TEST AT 5% SIGIFICANCE LEVEL

The result in table 4.1 showed the series used for the respective states using both Levin-lin Chu test and the Persaran-Shin test. All the variables were integrated of order one except IGR and TR was found to be stationary at first difference.

	Levin, Lin and Chu Test				**Im pesaran and Shin Test**				**Order**
	Levels		**Ist difference**		**Levels**		**1stdifference**		
	T-stat	P V	**T-stat**	**PV**	T-stat	P V	**T-stat**	**PV**	
RGDP	-0.4261	0.8536	-6.63452	0.00037	1.7942	0.8593	-4.7645	0.3218	I(1)
POP	1.42561	0.3632	-4.86734	0.0037	1.8535	0.7429	-1.9758	0.7456	I(1)
IGR	-1.96478	0.0853	-3.86479	0.0007	-1.8573	0.0649	-1.4598	0.4832	I(1)
FAAC	0.0000	1.0000	-5.45963	0.0004	1.7645	0.74632	-0.3425	0.9634	I(0)
FISA	3.31251	0.6745	-32.6853	0.0000	3.8594	0.7853	-5.6843	0.0000	I(0)

Source: Author's Computation (E-view 9), 2021

4.1.1. Analysis of Empirical Results for Akwa Ibom State in Nigeria

Table-4.1.1 The Estimated Sure model Result for Akwa Ibom State

Estimation Method: Seemingly Unrelated Regression				
Date: 05/25/2021 Time: 07:17				
Sample: 1 12				
Included observations: 12				
Total system (balanced) observations 12				
Linear estimation after one-step weighting matrix				
	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.270382	0.078280	3.454031	0.0106
C(2)	-0.000128	4.79E-05	-2.678764	0.0316
C(3)	259851.9	96331.58	2.697473	0.0308
C(4)	5.43E-06	2.14E-06	2.536644	0.0389
C(5)	-667268.1	534855.1	-1.247568	0.2523
Determinant residual covariance		2.05E+09		
Equation: GDP = C(1)*POP + C(2)*IGR + C(3)*FISA + C(4)*FAAC + C(5)				
Observations: 12				
R-squared	0.868900	Mean dependent var		1629147.
Adjusted R-squared	0.793986	S.D. dependent var		130580.1
S.E. of regression	59268.70	Sum squared resid		2.46E+10
Durbin-Watson stat	2.465736			

Source: Author's Computation (E-view 9), 2021

The estimated SURE model result for Akwa Ibom state revealed that population, Fiscal Autonomy and federal allocation have positive and significant impact on the Economic growth of Akwa Ibom state except Internally generated revenue which are consistent with apriori expectation because of their signs and magnitudes. This implies that a unit increase in Population growth, Fiscal Autonomy and Federal allocation will lead to a corresponding increase in economic growth of Akwa Ibom by (0.270382) units, (25.98519) units and (5.43E-06) units respectively with a minimum standard error term of 7 percent for Population growth (POP), 9 percent for FISA and 2 percent for FAAC. In the same view, IGR has a negative and significant impact on the Economic growth which does not conform to apriori expectation indicating that a unit increase in internally generated revenue (IGR) will reduce Economic growth of Akwa Ibom state by (-0.000128) units with a minimum standard error term of 2percent. Therefore based on the findings of the study, Population growth, Fiscal autonomy and federal allocation are the major determinants of Economic Growth in Akwa Ibom State while Internally generated revenue is a factor but not a major determinant of Economic growth in Akwa ibom state. The value of R-squared for Akwa Ibom State estimated SURE model result is pegged at 86% indicating that the explanatory variables explained about 86% systematic variation in the level of Economic performance over the observed years in the Nigerian Economy while the remaining 14% variation is explained by other determining variables outside the model. And the Durbin Watson result of 2.465736 indicates present of

autocorrelation in the model implying that the model is well behaved and specified and its findings can be used for policy formulation and forecasting the Akwa Ibom state economic growth in Nigeria.

Analysis of Empirical Results for Cross River State in Nigeria

Table-4.1.3 The Estimated Sure model Result for **Cross River State**

System: SURE				
Estimation Method: Seemingly Unrelated Regression				
Date: 05/25/2021 Time: 07:43				
Sample: 1 12				
Included observations: 12				
Total system (balanced) observations 12				
Linear estimation after one-step weighting matrix				
	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-6.453361	4.341062	-1.486586	0.1754
C(2)	2.16E-06	7.88E-07	2.745191	0.0252
C(3)	8.09E-05	0.012167	2.026652	0.0029
C(4)	13.28588	5.271.96	25.64051	0.0000
C(5)	15.28588	4.715.78	28.64051	0.0003
Determinant residual covariance		1.62E+09		
Equation: GDP = C(1)*FISA + C(2)*FAAC + C(3)*POP + C(4)*IGR + C(5)				
Observations: 11				
R-squared	0.730887	Mean dependent var		1391560.
Adjusted R-squared	0.629970	S.D. dependent var		80927.73
S.E. of regression	49228.39	Sum squared resid		1.94E+10
Durbin-Watson stat	2.891889			

Source: Author's Computation (E-view 9), 2021

The estimated SURE model result for Cross River State revealed that Federal allocation, population growth and Internally generated revenue have positive and significant impact on Economic growth of Cross River State while Fiscal Autonomy has negative and insignificant impact on economic growth of Cross River state which is not consistent with apriori expectation because of their signs and magnitudes. This indicates that a unit increase in Federal allocation, population growth and Internally generated revenue will lead to a corresponding increase in economic growth of Cross River State by (2.16E-06) units , (8.09E-05) units and (13.28588) units respectively with a minimum standard error term of 7 percent for Federal allocation, 1 percent for Population growth and 5 percent for Internally generated revenue. In the same view, Fiscal autonomy (FISA) has a negative and insignificant impact on Economic growth of Cross River which does not conform to apriori expectation indicating that a unit increase in fiscal autonomy (FISA) will reduce Economic growth of Cross river state by (-6.453361) with a minimum standard error term of 4 percent. Therefore, findings from the study revealed that federal allocation, population growth and internally generated revenue are the major determinants of Economic growth in Cross River State

while Fiscal Autonomy is factors but not a major determinant of Economic growth in Cross River State. The value of R-squared for Cross River State estimated SURE model result is pegged at 73% indicating that the explanatory variables explained about 73% systematic variation in the level of Economic performance over the observed years in the Nigerian Economy while the remaining 27% variation is explained by other determining variables outside the model. And the Durbin Watson result of 2.891889 indicates present of serial autocorrelation in the model implying that the model is well behaved and specified and its findings can be used for policy formulation and forecasting the Cross River State economic growth in Nigeria.

CONCLUSION AND POLICY RECOMMENDATION

This paper analysed the impact of fiscal decentralization on economic growth of selected states in south-south geopolitical zone in Nigeria using secondary data from joint task board, Revenue Allocation board and national bureau of statistics (NBS) from 2005-2020. Finding from the study revealed that FAAC, IGR AND POP decentralization in Nigeria influences economic growth in Cross river state and Akwa Ibom state. The theoretical expectation that decentralization would improve the economic performance of the selected states in south-south through proximity and regional competition seem not to be found in the study. The flow of fiscal decentralization in selected states of south – south geopolitical zone in Nigeria seem to follow inefficient application of resources by the political class with increased cost of governance rather than ensuring cost effectiveness in the provision of public services. Therefore, findings from the study revealed that population growth and internally generated revenue are the major determinants of Economic growth in Cross river state while Fiscal Autonomy and Federal allocation contributes to economic growth but not the major determinants of Economic growth in Cross river state. Also findings from the study on Akwa ibom state revealed that Internally generated revenue and Federal allocation are the major determinants of Economic growth in Akwa ibom state while Fiscal Autonomy population growth contributes but not the major determinant of Economic growth in Akwa ibom state. Therefore the study suggests key Economic reforms to improve transparency and accountability in all sectors of the economic as well as good governance in order to make fiscal decentralization a catalyst for economic growth and human resource development in selected states of south – south geopolitical zone in Nigeria.

Policy Recommendation

1 The study recommends that Policy measures must be put in place to grow the economy using monetary and fiscal policy mix reaction to ensure macroeconomic stability and realisation of macroeconomic goals of economic growth, price stability, low unemployment and balance of payment of states in Nigeria.

2. The study recommends that government should adopt an efficient approach to allocate resources at the sub-national level of government to boast economic growth of Cross river state and Akwa Ibom state in south-south geopolitical zone.

3. In Contrary, the negative impact of fiscal decentralisation, especially fiscal autonomy and federal allocation decentralisation to states calls for adequate reform measures at the sub-national level of government to ensure transparency, accountability and efficiency in application of the available resources in order to reverse the negative relationship observed between fiscal decentralization and Economic growth of Cross river state and Akwa Ibom state in south-south geopolitical zone.

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