# THE MODE AND GROWTH IMPACT OF REVENUE ALLOCATION IN NIGERIA.

**BY**

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**Abstract**

*Decades after independence and the practice of federalism in Nigeria, the country is still grappling with the challenge of having a revenue sharing formula that will be acceptable to all the tiers of government. The study examined the effect of revenue allocation to federal government on economic growth in Nigeria. The study collected quarterly time series data from secondary source within the period 2001Q1 to 2021Q4 from Central Bank of Nigeria (CBN) annual statistical bulletin. The independent variable for the study is revenue allocation to federal government (RAFG) and the dependent variable is economic growth proxied by gross domestic product (GDP). Employing Eviews* 10, *the study uses error correction model (ECM) and autoregressive distributed lag (ARDL) Co-integration tests for robust policy recommendations. Findings revealed that the revenue allocation to federal government exerts positive but insignificant effect on economic growth in Nigeria within the period under study. The study recommends that stern policy measures that will checkmate corruption and monitoring of application of public funds should be put in place. Policies like introduction of e-government in almost all government services will promote transparency. Code of ethics should be clearly developed to prevent ambiguity, increase decision making and work processes between private and public sectors.*

**Keywords:** Federalism, Revenue Allocation, Economic Growth, Federation account

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## 1.0 Introduction

Nigeria as a federation practice the federal system of government, a system of government where power is shared among the federating units. The Nigeria federation comprises three tiers of government; federal, state and local government, these three tiers of government are completely intertwined and interdependent but yet distinct and autonomous. In all federal system, across the world (United States of America, India, Australia, Russia, Sudan, and Canada), there is usually the issue of revenue sharing among the tiers of government in the federation.

In Nigeria power is shared among the federating units which consist of the federal government (FG), thirty-six (36) states and seven hundred and seventy-four (774) local governments. The functions/powers shared by the federating units are derived from the constitution of the federal republic of Nigeria and divided along Exclusive, Concurrent, and Residual legislative lists. The federal government which is the first tier of government performs the functions under the exclusive legislative list, while the functions under the concurrent legislative list are exercised both by the federal and the State governments but in the event of conflicting interest the position of the federal government takes precedent, while the local government deals with the items on the residual list.

Since the inception of the entity called Nigeria after the amalgamation of 1914, there had been one form of scheme, model, system and arrangement of relationship among the federating units in terms of administration and revenue sharing (Adegbami, 2013). It's been 63 good years since independent yet the issue of acceptable revenue sharing formula remained unresolved. The politics and controversy on the appropriate revenue sharing formula in Nigeria has been very contentious and recurrent (Vande, 2021). The sub-nationals argued that 52.68% to the federal government alone from the federation account is too much, giving that, they the Sub-national are the ones closer to the grass root and in best position to address their needs (Comfort & Okufuwa,2020).

This quest for favourable revenue share continued among the levels of government in the form of unrelenting struggle for resource control and calls for review of revenue allocation formula. Consequently, before the establishment of Revenue Mobilization, Allocation, and Fiscal Commission (RMAFC) as a permanent body to address revenue sharing challenges, not less than nine (9) ad-hoc Commissions/Committee had been set up, namely: (Phillipson Commission (1946); Hicks-Phillipson Commission (1951); Chicks Commission (1968); Raisman Commission (1958); Binns Commission (1964); Dina Interim Committee (1968); Aboyade Technical Committee (1977); Okigbo Commission (1980): Danjuma's committee (1988)) all in an attempt to provide a revenue sharing formula that will be acceptable to all the federating units in Nigeria.

There are several literatures like (Akujuru, 2015; Nkechi, 2013; Dang, 2013; Vande, 2021; Lukputa & Ph, 2013; Tom & Ataide, 2021; Omodero et al., 2018; Ebiezem, 2016) though mostly theoretical and exploratory that have crusaded for the adoption of acceptable revenue sharing formula, contrariwise, this study investigates the relationship between revenue

allocation to FG and economic growth in Nigeria using empirical analysis. Even most studies like Gabriel and Charlce (2015); Omodero et al. (2018); Sylvester and Ade (2018); Aondowase et al. 2019) that empirically assessed the effect of revenue allocation on economic growth in Nigeria, evaluated the effects of the three tiers of government simultaneously using annual data. But, because there is scarcely any empirical study that evaluated the singular effect of revenue allocation to a tier of government using quarterly data in its analyses, this study therefore, uses quarterly data to evaluate the singular effect of revenue allocation to FG on economic growth in Nigeria. The quarterly data will increase the number of observations, thus providing a robust and wider coverage that will aid in making generalized opinion.

Globally, revenue sharing in a federal system of government play an important role in promoting growth and development of an economy as it provides the platforms through which funds flows into the economy. It must be noted however, that, much as the issue of acceptable revenue sharing formula is very important in a federation, its attainment is difficult because acceptable revenue sharing formula is not a destination in itself, rather it is a continuous process that will endure in perpetuity among the federating units in a country. Validating this view, Arowolo (2013) opined that the dynamics of federalism makes it imperative for nations operating federal system of government to review periodically and come out with equitable and workable tax system and revenue allocation principles in such federations.

This hold true, because, the world is dynamic, and as countries evolve over time through the creation of additional states, local governments and even review of fiscal responsibilities, occurrence of natural disaster etc, hence, the need to tinker with existing revenue sharing formula becomes inevitable. Ensuing from above, and giving that sustainable economic development in Nigeria has been a serious challenge despite the huge revenue allocated to the federal government on a monthly basis from the federation account (Omodero et al., 2018), this study therefore specifically seeks to evaluate the effect of revenue allocation to federal government on the growth of Nigerian economy. In a null form, the statements of hypothesis formulated for this study read thus: $H_{01}$: revenue allocation to Federal Government (RAFG) has no significant effect on gross domestic product (GDP) in Nigeria.

## 2.0 Review of Literature

Studies on the impact of revenue allocation on growth have been conducted in the past, Callistus and Felix (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 found that revenue allocations to the federal government and state government both had a significant positive impact on economic growth in Nigeria for the period studied. Therefore, the study recommended that the continuous agitation for more revenue allocation to states should be reviewed properly by federal government and state governments to ensure a sustained increase in the direction of the impact of it on real GDP.

Omodero et al. (2019) investigated the impacts of federation account allocated funds on economic growth in Nigeria prior to reinstatement of democracy and after the restoration witnessed in May 29, 1999. The study employed annual time series data from 1989 to 1998 for pre restoration evaluation while data employed for post reinstatement assessment span from 2007 to 2016. All data were collected from CBN Statistical Bulletin, 2016 edition. Ordinary least square method was used to perform the multi-regression analysis with the aid of SPSS version 20. The findings of the study disclosed that FAFG had a significant positive impact on real gross domestic product (RGDP) after restoration of democracy while prior to restoration of democracy, the result reveals an insignificant negative influence on RGDP. FASG had insignificant positive impact on RGDP both on pre and post restoration of democracy while FALG had insignificant negative impact on RGDP in both scenarios tested. This leads to a conclusion that mismanagement of funds by the three tiers of government in Nigeria is responsible for dwindling economic growth in Nigeria and recommends proper use of resources by all levels of government in the country.

Ohiomu and Oluyemi (2019) looked at Resolving Revenue Allocation Challenges in Nigeria: Implications for Sustainable National Development. The work used the methodology of Group Unit Root Test, auto regressive distributed lag (ARDL) Bounds Testing and Cointegrating Long Run tests for robust policy recommendations. Using the Gross Domestic Product as the dependent variable and revenue allocation to the three levels of government, and oil revenue as the independent variables, the results from the study showed that revenue allocations and the other variables have significant relationship with economic growth in Nigeria. Though, RFEDRL had a positive impact but statistically insignificant p-value at 5% level of significant. Based on their findings, the study recommended among others that the current revenue allocation formula should be reviewed to embrace autonomy in its entirety to achieve national goals and objectives.

Aondowase et al. (2019) examined the impact of revenue allocation on economic development in Nigeria. Johansen cointegration technique and Dynamic Ordinary Least Squares (DOLS) were used to analyze the data. The results indicated that only revenue allocation to the federal government has positive and significant impact on economic development in Nigeria. However, revenue allocation to state and local government has positive but not significant impact on economic development. The study therefore recommended that federal government should increase sources of revenue through economic diversification. This is expected to reduce heavy reliance of the government on crude oil and eventually promotes economic development in Nigeria.

Sylvester and Ade (2018) examined Revenue allocation in Nigeria: Implications for Sustainable National Development. The work uses the methodology of Error correction model (ECM) in conjunction with diagnostic tests of variables using Johansen Co-integration tests for robust policy recommendations. Using the Gross Domestic Product (GDP) as the dependent variable and Revenue allocation to the three levels of government, inflation, and lending interest rate as the independent variables, the results showed that only revenue allocation to state government (LRAST) and consumer price index (LCPI) are statistically significant determinant of economic growth in the model at the 10 and 1 percent level of significance given that their values 0.0532 and 0.0002 respectively are less than 10 and 1 level of significance while the other variables (LRAFG, LEALF, LLIN and LGDP(-1)) are shown to be statistically insignificant within the model. Based on the findings, the study recommended among others that there should be accountability and transparency in the federating units to achieve national goals and objectives. Various levels of government should be given adequate funds to enable it to carry out its expenditure responsibilities to accelerate grass root development in the economy.

Omodero et al. (2018) examined the extent to which revenue allocation enhances economic development using time series data obtained from CBN Statistical Bulletin, which covered a period from 1981 to 2016. Ordinary Least Squares technique was employed and the findings revealed that FASG and NDSD have significant negative impact on PCI while FAFG has insignificant negative impact on PCI. On the contrast, the result showed that FALG has a robust significant positive impact on PCI. The study attributes this poor performance to misuse of resources and suggests that more stringent measures be employed by the government to fight graft in the public sector and among government officials. This will help to curb corrupt practices and ensure efficient and effective use of resources to boost economic development.

Gabriel and Charlce (2015) examined growth evidence of federal government allocation share, state governments' allocation share, and state governments' internally generated revenue in Nigeria. Using Dynamic Model and Correlation, the study used aggregate annual data obtained from the Central Bank of Nigeria, Annual Statistical Bulletin. The period covered in the study is 1970 to 2009. Econometrics approach was used. Regression results: At 5% level of significant, the result showed that allocations to the federal government (FGAS), allocations to the state governments (SGAS) and state governments' internally generated revenue (SIGR) significantly impact growth. However, while allocations to the federal government (FGAS) and state governments' internally generated revenue (SIGR) impact positively on growth; allocations to the state governments (SGAS) had negative impact.

Olowolaju et al. (2014) analysed the effects of statutory allocation on the economic performance of a States, using one of the well-endowed States, Ekiti as a case study. In order to achieve this, the study collected data from secondary sources of actual Federal allocations overtime and Gross Domestic Products with the Internally generated revenue (IGR). It then adopted a regression analysis model to test the effects of both the Statutory allocation and IGR on the economic development (GDP) of the State, to confirm the lead driver of the economy. Our findings showed that the variables Statutory Allocation (SA) and Internally Generated Revenue (IGR) were jointly having a positive correlation with Gross Domestic Product. However, despite the huge natural endowment of Ekiti State, only Statutory Allocation had a significant positive effect on Gross Domestic Product while the contribution of IGR is insignificant. Considering the dwindling federal allocations and the controversial allocation measures, it is therefore recommended (among others) that the States should widen its net for the Internally Generated Revenue to achieve meaningful economic development in the very near future.

Dang (2013) empirically examined the impact of revenue allocation on economic development in Nigeria using time series data for the period 1993 to 2012. Error correction model (ECM) and Pairwise Granger Causality test were used in analyzing the data. The study carried out test of stationarity of the variables using Augmented Dickey–Fuller unit root test and test of long-run relationship among the variables using Johansen Cointegration test. The study's findings showed that revenue allocations have significant causal relationship with economic development in Nigeria, with only revenue allocation to states having significant negative relationship. Unidirectional causality runs from revenue allocations to real GDP in Nigeria. All variables of the study are cointegrated and had a long-run relationship that 87.62% of the short-

run disequilibrium is corrected yearly. The study recommended among others that more financial control and value for money audit should be carried out to minimize wastages and corruption in the states of the federation, so as to change the direction of influence of states' revenue allocation on economic development.

The endogenous growth theory by Romer (1994) is used to anchor this study just like the works of Dang (2013); Omodero et al (2018); Omodero 2019; Sylvester and Ade (2018) and many more. This study adopts the new growth theory because it tries to go beyond the limitations of other theories to establish that long run economic growth primarily depends on policy measures within an economy. The policy measures mentioned here include revenue allocations which positively impact on the long-run economic growth that reflects as increase in real GDP (Dang, 2013). The endogenous growth theory states that economic growth is generated internally in an economy, i.e., through endogenous forces, and not through exogenous ones. The theory contrasts with the neoclassical growth model, which claims that external factors such as technological progress, etc. are the main sources of economic growth. Endogenous growth theory posited that internal factors like human capital and investment in knowledge of people plays an important role in economic growth.

The model assumes the absence of diminishing return on capital, i.e., there is increasing return to scale by investing in human capital through education or trainings which will lead to increase productivity because of improved labor quality. This theory's concept believes that increase productivity that will lead to economic growth can be achieved if there is improvement in knowledge, innovation, and human capital in an economy. Endogenous growth model indicates an active role for government revenue and government spending in promoting economic development through direct and indirect investments in human capital formation (education), infrastructure and research and development (Olayungbo & olayemi, 2018).

**3.0 Methodology**

The research design of this study is ex-post facto. Ex-post facto implies after event, thus, the reason for its adoption is the historical nature of the research data which were all in existence as at the time of this study. i.e., using existing data to predict future outcomes (Callistus & Felix 2019), since the researcher only investigates a problem by studying the variables in retrospect. The data on RAFG and GDP are historical in nature and this will permit verification and synthetization of evidence from the past to establish facts that either defend or refute the hypothesis that would be tested.

Augmented dickey fuller unit root test for stationarity of the data series employed was checked. The results indicates that LGDP data series is stationary at levels I(0) while the LRAFG data series is only stationary at first difference I(1). This test is necessary because non-stationary time series can lead to spurious correlation when used in econometric model. A time series is said to be stationary when the statistical properties like mean, variance and covariance of the distribution are constant over time. $H_0$: There is unit root; $H_i$: There is no unit root. Decision rule; if the ADF test statistics value is greater than the critical value at 5% level of significance, we reject the null hypothesis and accept the alternative hypothesis which states that there is no unit root. The opposite is the case should the result be otherwise.

The data analytical techniques used include the autoregressive distributed lag (ARDL) and error correction model (ECM) method of estimating a simple linear regression. The ARDL technique is chosen because it can be applied on variables that are either I(1) or I(0) or combination of the two and the approach yields unbiased estimates and its t-statistics are effective even if some of the regressors are endogenous (Harris & Sollis 2003), while the ECM techniques is also applied to determine the speed of adjustment from long run to short run equilibrium because the variables were found to be cointegrated, hence long run relationship exist between the variables.

**Model Specification**

Theoretically, economic growth is influenced by diverse factors (Sylvester and Ade, 2018). This study therefore, just like Sylvester and Ade (2018) adopts the Romer endogenous growth model which stresses the importance of investment in new knowledge, research and development in technology, capital and labor availability.

$Y = F(AK, L)$ …… (1)

Following the assumption of Romer model, the results from expenditure on research and development, AK, is identified by the shares of revenue to the federal government from federation account into the model. This is because revenue enters the growth equation through expenditure on physical and human capital development. Thus, the model becomes:

$GDP = F(RAFG)$ ……..…… (2)

Thus, converting the above model to an econometric model;

$GDP = \beta 0 + \beta 1\ RAFG1t + \mu t$……. (3)

To allow for easy interpretation of their coefficients for elasticity's, the log-linear analysis is applied to the model;

$LGDP = \beta 0 + \beta 1\ LRAFG1t + \mu t$ ……. (4)

Where: LGDP = log of Gross Domestic Product

LRAFG= log of Revenue Allocation to Federal Government

β0 is a constant; β1 is coefficients of the regression model, μ is the error term and t is the time.

Where, $H_0 = \beta 1 = 0$. $H_1 = \beta 1 \neq 0$. $\beta 0 = \beta 1 > 0$

The A priori expectation is that the revenue allocation to FG should be greater than zero, implying a positive contribution to economic growth in Nigeria.

**Table 1**

***Variable measurement***

| **Variable** | **Measurement** | **Supporting Studies** |
|---|---|---|
| Economic Growth | Economic growth is measured using the total market value of gross domestic product (GDP) every quarter of the year from 2001Q1 to 2021Q4. I.e., GDP is the proxy for economic growth and it is the dependent variable. | Olowolaju (2014)<br>Omodero et al. (2019)<br>Omodero (2019) |
| Revenue Allocation to Federal government (RAFG) | Revenue Allocation to Federal government (RAFG) is measured by the value of federation account revenue allocation to the federal government every quarter of the year from 2001Q1 to 2021Q4. RAFG is the independent variable in this study | Sylvester and Ade (2018)<br>Callistus and Felix (2019)<br>Gabriel and Charlce (2015)<br>Aondowase et al. (2019) |

**Source: Author's computation using Eviews 10**

## 4.0 Findings and Discussion

**Table 2**

***Augmented Dickey-Fuller Unit Root Test***

| Variables | ADF test statistics at levels | critical value (5%) | ADF test statistic at 1st Difference | critical value (5%) | Order of integration |
|---|---|---|---|---|---|
| LGDP | -4.145321 | -2.900137 | -3.802566 | -3.470851 | I(0) |
| LRAFG | -2.359586 | -2.896779 | -10.31569 | -2.897223 | I(1) |

**Source: Author's computation using EViews 10**

The unit test in table 2 showed that the dependent variable GDP is integrated at level while the independent variable LRAFG is integrated at first difference.

**Table 3**

***Bounds Test: Cointegration***

| F-Bounds Test | | Null Hypothesis: No levels relationship | | |
|---|---|---|---|---|
| **Test Statistic** | **Value** | **Signif.** | **I(0)** | **I(1)** |
| | | Asymptotic: n=1000 | | |
| F-statistic | 7.751314 | 10% | 3.02 | 3.51 |
| K | 1 | 5% | 3.62 | 4.16 |
| | | 2.5% | 4.18 | 4.79 |
| | | 1% | 4.94 | 5.58 |

**Source: Author's computation using EViews 10**

**Bounds Test for Cointegration:** This study relies on the ARDL bounds test approach to co-integration developed by Pesaran et al., (2001) to test for cointegration. Aluthge et al. (2021) noted that ARDL bounds test approach to co-integration has been demonstrated to perform better than other traditional cointegration methods. This is because of its numerous advantages over other long run estimation techniques. It can be applied on variables that are either I(1) or

I(0) or combination of the two and the approach yields unbiased estimates and its t-statistics are effective even if some of the regressors are endogenous (Harris & Sollis 2003). We therefore, using ARDL BOUNDS test for cointegration checked if there is a long run equilibrium relationship among the variables. The result in table 3, given that the value of the F-statistics (7.751) is greater than the critical value (4.16) of the upper bound at 5% level of significance, revealed the presence of cointegration i.e., there is a long run equilibrium relationship between the dependent and independent variable. Therefore, the null hypothesis of no level relationship is rejected and the alternative hypothesis is accepted.

**Table 4**

***VAR Lag Order Selection Criterion***

| Lag | LogL | LR | FPE | AIC | SC | HQ |
|---|---|---|---|---|---|---|
| 0 | -73.30767 | NA | 0.024241 | 1.956043 | 2.016921 | 1.980394 |
| 1 | 127.4054 | 385.7862 | 0.000146 | -3.153387 | -2.970753* | -3.080335 |
| 2 | 133.2944 | 11.01308 | 0.000139 | -3.202451 | -2.898061 | -3.080697* |
| 3 | 138.1477 | 8.824310 | 0.000136 | -3.224616 | -2.798470 | -3.054161 |
| 4 | 141.6426 | 6.172811 | 0.000138 | -3.211497 | -2.663594 | -2.992341 |
| 5 | 147.5193 | 10.07431 | 0.000132* | -3.260242* | -2.590583 | -2.992384 |
| 6 | 148.0318 | 0.851963 | 0.000145 | -3.169658 | -2.378243 | -2.853099 |
| 7 | 154.9150 | 11.08461* | 0.000135 | -3.244546 | -2.331375 | -2.879285 |

*** Indicates lag order selected by the criterion**
**Source: Author's computation using EViews 10**

Table 4 shows the optimal lag order selection process where Akaike info criterion (AIC) lag 5 was selected because it has the lowest value.

**ARDL error correction model**

The ARDL short run result in table 5 showed the existence of a positive relationship between revenue allocation to federal government and economic growth, though the effect, given the p-value (0.3980) is not statistically significant at 5% level. It also shows that the one period lag error correction term or cointegration equation (CointEq(-1)*) passed the three basic criteria as the coefficient value (-0.017617) is negative, less than one and p-vale (0.0000) is statistically significant. Multiplying the absolute value of the cointegration equation coefficient -0.01761 by 100% gives us 1.76 %, which is the speed of adjustment from the short run to long run every quarter of the year if there is any disequilibrium in the system.

The R squared coefficient value (0.4345141) which measures the goodness of fit of the estimated model showed that the independent variable D(LRAFG) explained 43.4 % of the variation of the dependent variable D(LGDP), suggesting that the model is reasonably fit in prediction. while the remaining unexplained 56.6 % is done by variables not included in this model. i.e., it is captured by the white noise error term. The Durbin Watson statistics (1.966290) indicated that the model is also free from the problem of autocorrelation or serial correlation.

**Table 5**

***ARDL Error Correction Model***

| ECM Regression<br>Case 2: Restricted Constant and No Trend | | | | |
|---|---|---|---|---|
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| D(LGDP(-1)) | -0.553997 | 0.114771 | -4.826986 | 0.0000 |
| D(LGDP(-2)) | -0.522652 | 0.126352 | -4.136462 | 0.0001 |
| D(LGDP(-3)) | -0.355657 | 0.126172 | -2.818825 | 0.0063 |
| D(LGDP(-4)) | -0.205270 | 0.111987 | -1.832977 | 0.0712 |
| D(LRAFG) | 0.116423 | 0.136864 | 0.850649 | 0.3980 |
| D(LRAFG(-1)) | 0.271553 | 0.130996 | 2.072987 | 0.0420 |
| D(LRAFG(-2)) | -0.012239 | 0.133871 | -0.091421 | 0.9274 |
| D(LRAFG(-3)) | 0.169613 | 0.133850 | 1.267192 | 0.2095 |
| D(LRAFG(-4)) | 0.051348 | 0.139069 | 0.369227 | 0.7131 |
| CointEq(-1)* | -0.017617 | 0.003600 | -4.893678 | 0.0000 |
| R-squared | 0.345141 | Durbin-Watson stat | 1.966290 | |
| Adjusted R-squared | 0.259724 | | | |

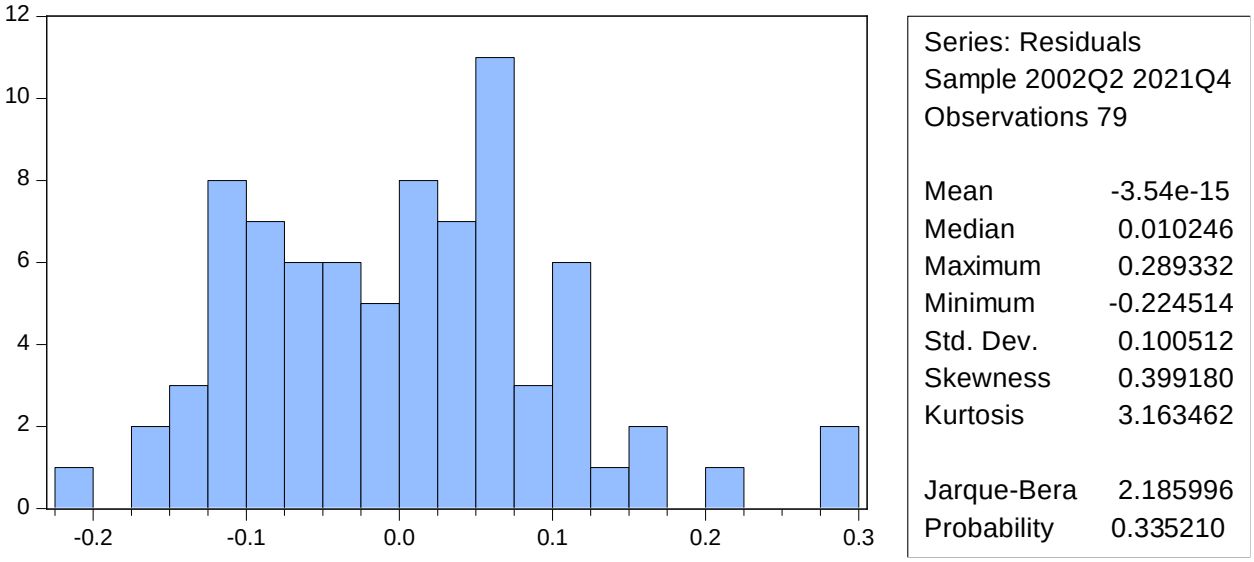
**Source: Author's computation using EViews 10**

The coefficient of D(LRAFG) (0.116423) indicated that there is positive relationship between D(LRAFG) and D(LGDP). This implies that a percentage change in revenue D(LRAFG) increases the D(LGDP) by 12%. Although the coefficient is not having a statistically significant p-value just like the findings of Sylvester and Ade (2018) and Ohiomu and Oluyemi (2019) where revenue allocation to FG also had positive but insignificant effect on GDP. It however contrast with the findings of Callistus and Felix (2019); Dang (2013); Aondowase et al. (2019) where revenue allocation to FG had positive and significant effect on GDP.

**Diagnostics Tests**

Diagnostics tests conducted to determine the appropriateness and robustness of the estimates include: Normality test, Breuch-Godfrey Serial Correlation LM, heteroskedasticity tests, Ramsey Reset Test and Cusum of Squares test.

**Figure 1:** ***Normality test***




**Source: Author's computation using EViews 10**

Breuch-Godfrey normality test in figure 1 showed that the residuals are normally distributed since the p-value (0.3352) is greater than 0.05 significance level.

**Table 6**

***Diagnostic Test Results***

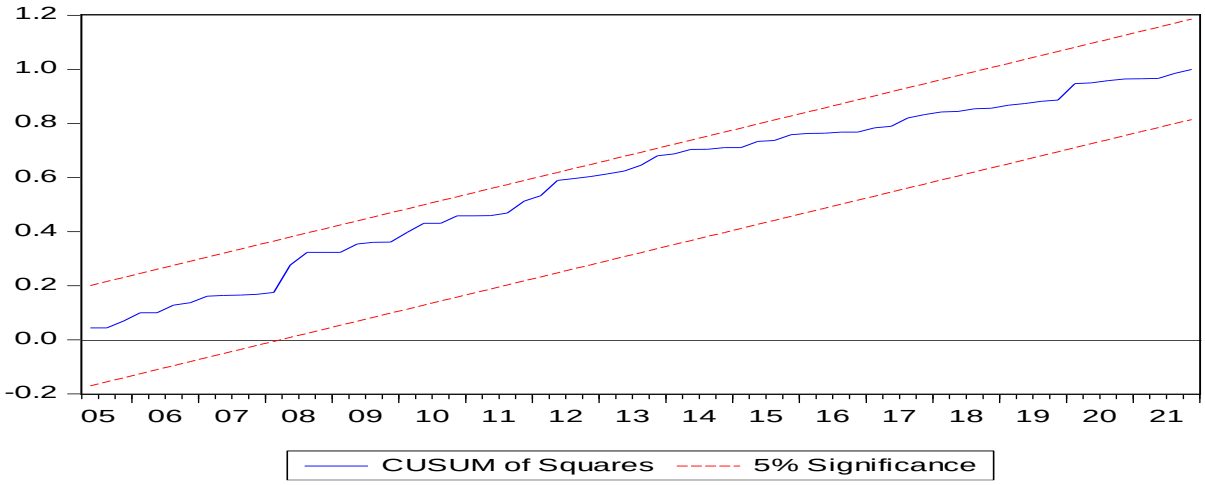
| Test type | F-statistics Coefficient | Df | P-values |
|---|---|---|---|
| Serial lm test | 2.290909 | Prob. F(2,65) | 0.1093 |
| Heteroskedasticity test | 0.779508 | Prob. F(11,67) | 0.6590 |
| Ramsey Reset test | 0.406086 | prob. F(1,66) | 0.5262 |

**Source: Authurs' computation using eviews 10**

Table 6 shows the Breusch-Godfrey Serial correlation LM test and the heteroskedasticity tests, the results showed that there is no serial correlation in the model and the residuals are Homoskedastic. Also, the Ramsey reset test result in table 6 showed that the model is well specified, hence, the null hypothesis: Model is correctly specified is accepted since there is no

misspecification problem in the model. Their corresponding p-values are not significant using a 5% significant level.

**Figure 2:** ***Cusum of Squares Test***




The Cusum of Squares test result in figure 2 showed that the blue line lies within the 5% critical line which prove that the residual variances are relatively stable.

## 5.0 Conclusion and Recommendation

At the beginning, the study hypothesized that revenue allocation to federal government (RAFG) does not have significant effect on GDP. The D(LRAFG) coefficient 0.116423 and p-value 0.3980 on table 5 indicated that revenue allocation to FG is positive but does not have significant influence on LGDP. So, the study accepts the null hypothesis and rejects the alternative hypothesis. The insignificant positive effect of the huge revenue allocation to federal government on economic growth in Nigeria only confirmed cases of corruption and gross misappropriation of funds by government officials.

To curb this trend therefore, the study recommends the introduction of policies measures that will minimize misapplication of public funds, through the use technology like e-government in almost all government services. This can promote transparency and even reduce citizens physical interactions with government official if they can access government services by filling relevant forms at home and sending them via emails to relevant authorities. More efforts should be geared also toward embarking on those projects that will improve human development index

(HDI) of the Nigerian citizens, and remunerations of government official should be increased to reflect present realities, officers living above their means should be scrutinised. Implementing more stringent measures like demotion, dismissal, speedy prosecution of persons found wanting of corrupt practices in government system, and rewarding honest, dedicated and loyal staff in the public sector will ensure efficient and effective use of resources to boost economic growth.

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