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IMPACT OF FISCAL DECENTRALIZATION ON CORRUPTION: A CASE STUDY OF KADUNA STATE.

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Abstract

The level of impoverishment seen in major Local government areas in Nigeria has been blamed on the embezzlement of public funds at the upper echelons of government and several empirical studies have suggested fiscal decentralization (FD) as a therapy for this problem. The degree of FD in each Local government was measured using four indicators, namely, revenue indicator (RI), expenditure indicator (EI), autonomy indicator (AI), and capital indicator (CI) across three econometric models. Using panel data from 2006 to 2023 to examine the effect of FD on corruption in the 23 Local government areas in Kaduna state, the study's findings indicate that AI and CI positively impacts corruption while (RI) decreases corruption. Based on these findings, the state government is encouraged to promote FD by increasing local governments' revenue-generating capacity while also putting measures in place to perform oversight functions and prevent the abuse of public funds.

Keywords: Fiscal Decentralization, Corruption, Local Governments, Autonomy.

1. INTRODUCTION

Achieving sustainable public financing is the first order of business in many developing countries whose economies rely solely on international trade (Oti & Otor, 2024). With falling Gross Domestic Product (GDP) and the rise of unfavourable exchange rates in Nigeria, reducing the cost of governance has risen to the

forefront of Local government reform (Gberebie, 2024). Among the reform agendas in local government areas is the implementation of fiscal decentralization (FD) to tackle corrupt practices by public agents. Corruption is an institutional feature that is harmful to public finances and is considered a major

obstacle to good governance (Shiyanbade & Esan-Atanda 2024). FD involves increasing the umbrella of developmental activities Local governments can embark on by assigning them more expenditure and revenue-generating functions (Amin & Abdullahi, 2024).

The level of impoverishment seen in major Local government areas in Nigeria has been blamed on the embezzlement of public funds at the upper echelons of government (Oti & Otor, 2024). As a result of these corrupt activities, more than half of the population in Nigeria lives on less than US \$1 per day (Amin & Abdullahi, 2024). Although Local governments play an essential role in the administration of grassroots governance, the Local government system in Nigeria faces several challenges, including revenue allocation, interference by State governments and corruption (Gberevbie, 2024).

Despite the constitutional acknowledgement of Local government autonomy, State governments continue to have significant influence over their operations. Local governments in Kaduna State receive billions of naira in statutory allocations monthly (Oti & Otor, 2024). Yet, the rate of economic development seen in these areas is far from commensurate with the funds received (Gberevbie, 2024). Although government-established anti-corruption agencies such as the Economic Financial Crime Commission (EFCC) and the Independent Corrupt Practices and Other Related Offences Commission (ICPC) have made notable convictions in the private sector, monumental financial scandals within the Local government public sector in Kaduna State are still rampant (Shiyanbade & Esan-Atanda 2024).

Many research has focused on determining if elements within the government such as FD can be used as a remedy to curtail corruption (Amin & Abdullahi, 2024). FD provides the enabling environment for citizens at the Local government level to monitor government officials and hold them accountable (Erubami, 2024). However, others argue that corruption is most rampant at the lower tiers of government since uncoordinated low-quality bureaucrats manage public resources (Raji, 2024). Given the foregoing, this paper's objective endeavours to advance the stalled debate on the impact of FD on corruption by analyzing the institutional mechanisms through which FD and corruption interact within the Local government sphere in Kaduna state.

This paper is organized into five sections. Section one provides a brief background to the study, section two reviews the literature on FD and corruption, section three discusses the research methodology, section four analyzes the results and section five concludes the research.

2. LITERATURE REVIEW AND THEORETICAL UNDERPINNING

2.1. Conceptual Review

Conceptually, corruption is generally defined as the misuse of public resources for personal gain (Onana et al., 2024). Tax evasion, favouritism, extortion, dishonest procurement, embezzlement, fraud and bribery are some examples of corrupt practices by public sector employees in Nigeria (Amin & Abdullahi, 2024).

Fiscal Decentralization refers to the devolution of authority over public revenue and expenditure to lower tiers of government (Raji, 2024). The core concept of FD is efficiency in governance and FD enables Local citizens to exert more control over the administration of public funds. To measure FD, one has to be capable of

calculating the degree of devolution of power from State to Local governments. Devolution of fiscal power is usually calculated using accounting measures such as the ratio of Local government revenue and expenditure to State government revenue and expenditure (Raji, 2024).

(Shiyanbade & Esan-Atanda 2024) posits that FD acts as a necessary safeguard against the careless use of public monies since a government that is more accessible to the populace is one that is subject to greater scrutiny and effective monitoring. However, FD could enable corrupt politicians and Local elites to seize control of Local governance, negatively impacting revenue and expenditure decisions (Gberevbie, 2024). Therefore, it is conceivable that when the government is corrupt, further decentralization may intensify corrupt practices at the Local government level.

2.2. Theoretical Underpinning

This study's theoretical framework is anchored on Tullock's rent-seeking theory (1967) and the decentralization theorem by Oates (1972). On the one hand, Tullock (1967) argues that political officeholders in developing countries are more likely to engage in a wasteful diversion of resources into the public sector to appease voters in a particular jurisdiction. This is because the public sector is more susceptible to clientelism which is a relatively appealing political tactic in circumstances of high-income inequality and low productivity.

On the other hand, Oates (1972) 's decentralization theorem argues that FD increases allocative and productive efficiency in governance. Allocative efficiency refers to the economic gains from delivering services that match the needs and preferences of Local citizens due to the geographical proximity of the government to the people. Productive efficiency refers to the economic gains that will be achieved from providing goods and services to the Local citizenry at the lowest possible cost due to inter-jurisdictional competition and public entrepreneurship.

The Rent-seeking theory was criticized in the 1980s for its vagueness and assumptions about "wasted resources" (Samuels, 1992). Samuels argues that rent-seeking theorists describe productivity as a physical property but overlook the product's rights. He further asserts that the concept of "wasted resources" denies our choices to distribute those resources as economic agents. The major critique towards Oates's decentralization theorem is that it does not provide a clear and distinctive explanation that substantiates the direct link between FD and economic growth. As such, the inclusion of FD in a growth model may appear arbitrary to the casual observer because FD is defined as the proportion of subnational fiscal resources in total national fiscal resources and this is not a measure of efficiency within the levels of government.

2.3. Empirical Review

Galiński (2024) examined the effect of FD (subnational tax revenue decentralization) in tackling the negative effects of corruption on a panel of 38 OECD countries from 2012 to 2022. Using Generalized Method of Moments and a Fixed effects estimator, findings revealed that tax revenue decentralization causes a reduction in corruption.

Using inter-provincial panel data in China from 2005 to 2020, Li and Li (2024) examined the effects of fiscal decentralization on local governments' degree of self-interest and how much influence this self-interest has on the bias of the fiscal spending structure. Using a fixed-effects model, they discovered that local

governments' self-interest increases due to fiscal decentralization, which causes a bias in the spending structure against livelihood expenditures such as education, medical care, and housing.

Siburian (2024) used panel data from 2003 to 2018 to analyze the impact of FD on corruption in Indonesia at the provincial level using a Poisson model with endogenous covariates. They used FD data (which comprised expenditures and revenue share of national and local governments) and over-invoicing of public goods/services to measure corruption. The results showed that FD positively correlates with higher corruption incidence at the provincial level.

Saputra and Setiawan (2021) use panel data (2013 to 2015) from the financial statements of 94 Local governments in Indonesia to examine the effect of FD (revenue and expenditure decentralization) and accountability on indices of corruption; measured by the monetary value of expenditures that are not in compliance with audit laws and regulations. Using Ordinary Least Squares (OLS), findings revealed that although higher degrees of FD mitigate corruption, accountability has no significant effect.

Changwony and Paterson (2019) used a cross-section of 128 countries to examine the effect of FD on corruption. Using corruption data from the Transparency International Corruption Perceptions Index (TICPI) findings revealed that FD reduces corruption in nations with high-quality accounting practices. However, they also find that FD has a detrimental and diminishing impact on lowering corruption in nations with subpar accounting standards.

Olatona and Olomola (2015) analysed the effect of FD (intergovernmental transfers and internally generated revenue) on public service delivery (Health and Education) in 36 states in Nigeria including the Federal Capital Territory. Using a data set from 1999 to 2012 and several indices to capture health and education across the 36 states, they found that FD is positively related to educational improvements in the public sector but has an insignificant negative relationship with health service delivery in Nigeria.

Oto-Peralas et al. (2013) examined the effect of FD (subnational tax revenue decentralization) in tackling the negative effects of corruption on a panel of 38 OECD countries from 1986 to 2010. Using Generalized Method of Moments estimator and corruption data from the International Country Risk Guide Corruption Perceptions Index (ICRG CPI), findings show that the effect of FD varies depending on the level of corruption in the country as its reducing effect is more pronounced in countries with higher corruption rates.

Despite the availability of empirical research on the impact of FD on corruption, there are no empirical studies concentrating on FD between states and Local governments in Nigeria. Motivated by the scarcity of empirical research in this area and the heterogeneities in both theoretical and empirical literature, this paper aims to bridge this gap by investigating the impact of FD on corruption in the twenty-three Local Government Areas of Kaduna state.

3. METHODOLOGY

3.1. Introduction

To measure FD, one has to be capable of calculating the degree of devolution of power from State to Local governments. Using one indicator cannot accurately capture and quantify the true amount of FD because, expenditure, internally generated revenue, and

intergovernmental grants (statutory transfers from Federal and State governments to Local governments) are all different aspects of FD (Eniekezimene, 2021). As such, in line with Atan and Esu (2021), four FD indicators will be constructed to assess the impact of FD on economic growth. These indicators include Revenue Indicator (**RI**), Expenditure Indicator (**EI**), Autonomy Indicator (**AI**), and Capital Indicator (**CI**).

Corruption in this study was measured using the percentage of negative variances arising from Local government expenditures. A negative variance occurs when actual expenditure exceeds the total appropriated budgeted amount. Expenditure that exceeds the appropriated budget is breaking the law, and this leads to a qualified opinion by the Local government Auditor General. Negative variances serve as an appropriate measure of corruption in each Local government area since it is not subjective in nature or based on perceptions. Rather, the corruption figures used are fact-driven and backed up by Local Government Audit law. As such, negative values denote high corruption while positive values denote less corruption.

3.2. Sample of Study

Disaggregated data from the published audited annual accounts of Kaduna state in Nigeria and its twenty-three local government areas covering the years 2006 to 2023 was used to generate the data used to analyze the effect of FD on public sector employment. The Local government areas include; Birnin Gwari, Chikun, Giwa, Igabi, Ikara, Jaba, Jema'a, kachia, Kaduna North, Kaduna South, Kagarko, Kajuru, Kaura, Kauru, Kubau, Kudan, Lere, Makarfi, Sabon Gari, Sanga, Soba, Zangon Kataf & Zaria Local government.

3.3. Model Specification

This study's growth model is established on a modified version of the endogenous growth model by Barro (1990), which identifies linear relationships between government expenditure and economic growth. As such, a growth model that captures revenue and expenditure by different tiers of government is the most appropriate for this thesis. Overall, this model indicates that if actual expenditure shares do not match growth-maximizing ones, reallocating resources across the tiers of government will boost economic growth. Atan and Esu (2021) also used this endogenous growth model.

$$Y = P + G \tag{1}$$

The model assumes that two sectors of the economy produce output (Y): the private sector (P) and the government sector (G).

$$P = p(L_p K_p R_g) \tag{2}$$

$$G = g(L_g K_g) \tag{3}$$

In this model, output (Y) is dependent on labour (L) and capital (K) inputs from both the government sector (G) and private sector (P). It is further assumed that output in the government sector (government expenditure) has an externality effect on output in the private sector. This is represented in the model as resource allocation policy of the government (R_g).

$$L = L_p + L_g \tag{4}$$

$$K = K_p + K_g \tag{5}$$

Equation 4 and 5 illustrates that total labour and capital input in the economy comes from both the private and government sectors and the total output function is shown in equation (6).

$$Y = f(L, K, R_g) \quad (6)$$

Assuming that resources in the government sector (G), are allocated to two tiers of government: State (S) and Local (LG); then

$$G = S + LG \quad (7)$$

Equation (7) provides a statement of statutory allocations to state and Local governments.

$$Q = LG \quad (8)$$

Equation (8) represents Local government share of total government revenue and expenditure but is subsumed in (7), while (7) is imbedded in (6). Equation (6) becomes our baseline equation, and the Rg component will be unbundled subsequently. Atan and Esu (2021) adopted this approach in their model specification. Given the factor input components of equation (6), equation (6) is re-written as a Cobb-Douglas production function:

$$Y = f(L^{\beta_1} K^{\beta_2} A) \quad (9)$$

Where Y is output growth rate; L is labour and K is capital; which is divided into human and physical capital and A represents total factor productivity (TFP), which is regarded as an efficiency parameter. The model assumes implicitly that endogenous variables are instrumental to the establishment of the TFP component of the model. The TFP is therefore structured as:

$$A = f(R_g, X) \quad (10)$$

$$R_g = f(FD_j) \quad (11)$$

Where FD_j represents each of the four FD indicators discussed previously and X is the vector of some control variables which, in

Table 1

Variables, Definition and Sources

Variable	Description	Exp Sign	Data Source
COR	Corruption Rate is measured by the percentage of recurrent expenditure that violates appropriation law.	+/-	Audited annual reports of Kaduna State Government and each LG
RI	Ratio of Local government total revenue to combined State and Local government revenue	+/-	Audited annual reports of Kaduna State Government and each LG
EI	Ratio of Local government total expenditure to combined State and Local government expenditure	+/-	Audited annual reports of Kaduna State Government and each LG
AI	Ratio of Local government's own revenue share of its total revenue	+/-	Audited annual reports of Kaduna State Government and each LG
CI	Ratio of Local government's own capital investments to combined State and Local government capital investments.	+/-	Audited annual reports of Kaduna State Government and each LG
IGR	Local government Internally generated revenue per Capita	+	Audited annual reports of each LG
CEX	Capital investments in each Local government	+	Audited annual reports of each LG
PED	Human capital measured by primary education expenses in each Local government area	+	Audited annual reports of Kaduna State Government and each LG
APC	Political party in power captured by a dummy variable	+/-	Independent Electoral Commission
PSE	Public Sector Employment rate measured as Personnel Emolument in each Local government area.		audited annual reports of each LG

Source: Author's computation (2024)

most economic growth studies, have been found to interact positively and significantly with economic growth. Equations (9) therefore can be expressed as a linearized composite function by taking the log of both sides thus:

$$Y_{it} = L_{it} + K_{it}^h + K_{it}^c + FD_{jit} + X_{it} \quad (12)$$

Where i represent each Local government area, t signifies the time period, j represents the FD indicator being used, L_{it} represents labour, K_{it}^h and K_{it}^c represent human and physical capital respectively. To adaptable for OLS estimation, the econometric version of equation (12) is restated as thus:

$$COR_{it} = \beta_0 + \beta_1 IGR_{it} + \beta_2 PED_{it} + \beta_3 PSE_{it} + \beta_4 CEX_{it} + \beta_5 FD_{jit} + \beta_5 X_{it} + E_{it} \quad (13)$$

Where COR_{it} is corruption rate in local government i at time t , β_0 is the constant parameter; β_i are elasticities of the above-defined variables and their expected signs are discussed in the next sub-section; IGR_{it} is economic growth measured using the Internally Generated Revenue (IGR) of the 23 Local Governments, PED_{it} is primary school education, PSE_{it} is public sector employment per capita, CEX_{it} is capital expenditure, FD_j represents each of the four FD indicators discussed previously and X is the vector of some control variables which, in most economic growth studies, have been found to interact significantly with Corruption rate. E_{it} represents the stochastic error term which is assumed to be normally distributed, homoscedastic, and independent across observations.

3.4. Data and Sources of Data Collection

Although the key variable of interest is FD, there are other factors that need to be accounted for to avoid endogeneity problems. As such, variables that are known to impact corruption in each Local government (LG) are included as independent variables.

3.5. Data Analysis Technique

The effect of FD on public sector employment was estimated using a Fixed Effects model (FE), Pooled OLS model and a Cross Section Augmented - Auto Distributed Lag Model (CS - ARDL). The FE model emphasizes the variation within panels and is appropriate for investigating the effect of FD within a Local government across time. The Pooled OLS model uses the average deviation across panels to examine the impact of FD on public-sector employment across Local government areas. The CS - ARDL model enables the estimation of FD's short and long-run effects on public-sector employment. However, none of the proposed estimation approaches (FE with Driscoll-Kraay Standard Errors, Pooled OLS with Panel Corrected Standard Errors, and CS-ARDL) can simultaneously address all the problems that this dataset faces: cross-sectional dependence, endogeneity, non-linearity, time-invariant, and slowly moving variables without some form of caveat. Each estimation approach has its strengths and weaknesses, leaving the researchers with no preferred estimator. As such, all three models will be used to determine fiscal decentralization's holistic effect on corruption in Kaduna state local government areas.

4. RESULTS/FINDINGS

Table 2

Descriptive Statistics

Variable	Type	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis	Observations
COR	Overall	8.559906	13.12555	-49.1019	51.5348	0.03917	5.1545	N = 414
PSE	Overall	1374.659	706.9172	188.0803	6202.966	0.827	3.1597	N = 414
IGR	Overall	24.89199	93.6266	-94.9645	321.4143	1.3748	4.1878	N = 414
PED	Overall	2145.964	1026.975	123.0156	6458.567	0.5624	2.3342	N = 414
CEX	Overall	1286.396	908.3759	3.3985	6778.337	0.6323	2.4918	N = 414
APC	Overall	0.4021739	0.491004	0	1	0.399	1.1592	N = 414
RI	Overall	0.0792364	0.226951	0.009	0.9658	0.6534	3.5321	N = 414
EI	Overall	0.0164764	0.004399	0.0064	0.0313	0.2377	2.3766	N = 414
AI	Overall	0.0268155	0.021941	0.0012	0.1495	0.4584	2.1708	N = 414
CI	Overall	0.009962	0.007827	0	0.0434	1.0685	4.0758	N = 414

Source: Author's computation (2024)

The mean in table 2 represents the mean value for each data. The mean of RI (0.080) is the highest amongst the FD indicators, which signifies that on average FD occurs more in Local government share of total revenue in the State. The standard deviation measures how dispersed the data is in relation to the mean and the values in Table 2 suggest that the data on the independent variables are spread out. Skewness quantifies the degree of asymmetry in the series and kurtosis measures its peak or flatness. Observing the skewness in Table 2 shows that all the variables are skewed to the right and the majority of them are leptokurtic since they have values higher than three. To address this, a letter value test is performed on all the variables. The letter-value test is based on a systematic observation of outliers. The results showed that the maximum and minimum values for all the variables used in this analysis fall within the recommended fence to yield the same results as a normally distributed variable.

Table 3

Unit Root Test

Im -Pesaran Shin Unit Root Test		
Variable	Test Statistic	P Value
PSE	-3.8713	0.0001
PED	-2.4610	0.0069
COR	-7.6484	0.0000
CEX	-6.3764	0.0000
RI	-8.3029	0.0000
EI	-6.2563	0.0000
AI	-4.8535	0.0000
CI	-6.7513	0.0000

Source: Author's computation (2024)

Under the null hypothesis in Table 3 above, all panels contain a unit root and the alternative hypothesis is that at least one panel is stationary. The null hypotheses are rejected at a P value of 0.00%. This means that all the variables are stationary at levels.

Table 4*Correlation Matrix*

Variables	IGR	PED	PSE	COR	CEX	APC	RI	EI	AI	CI
IGR	1.0000									
PED	-0.1608	1.0000								
PSE	-0.1005	0.5842	1.0000							
COR	0.0000	-0.1321	-0.1273	1.0000						
CEX	0.0590	-0.2262	0.0297	0.0791	1.0000					
APC	-0.0790	0.1463	0.1058	-0.2393	-0.2181	1.0000				
RI	0.0418	-0.0326	0.0900	-0.2049	-0.0966	0.3070	1.0000			
EI	0.0667	-0.2804	-0.2479	0.0897	0.2129	-0.3667	0.1680	1.0000		
AI	0.4906	-0.2760	-0.2052	0.2153	0.1308	-0.4328	-0.1212	0.1887	1.0000	
CI	0.1506	-0.3909	-0.2031	0.1904	0.6162	-0.5872	-0.1651	0.6288	0.3232	1.0000

Source: Author's computation (2024)

The collinearity diagnostics show a relatively low correlation between the independent variables and FD indicators. Following the rule of thumb of correlation between two variables being less than 0.70, the results show no serious problem of multicollinearity.

Table 5*Pre-Estimation Tests*

Tests	Type	Chi-Square/F-Stats	P-Value
Groupwise Heteroskedasticity	Modified Wald Test	203.43	0.0000
Serial Correlation	Wooldridge Panel Data Test	4.46	0.0463
Cross Sectional Dependence	Pesaran Test	12.328	0.000
Misspecification	Ramsey RESET TEST	1.06	0.11

Source: Author's computation (2024)

The Wald's test is performed to test the presence of group-wise heterogeneity using the squared residuals in regressions. The null hypothesis states that there is no heteroscedasticity in the residuals. We reject the null hypothesis and conclude that the model suffers from groupwise heteroskedasticity because the Wald test has a probability value 0.00. The Wooldridge Panel data Test is performed to test the presence of autocorrelation. The null hypothesis states no serial correlation exists in the residuals and is strongly rejected with a p-value of 0.046. This led to the conclusion that there is Serial correlation in the model. Another important test performed is the Pesaran test of cross-sectional dependence. The null hypothesis of independent cross section units is strongly rejected with a p-value of 0.0104. A RESET test is also performed to test if the models are correctly specified. This test yielded a P-value of 0.11 and we fail to reject the null hypothesis of a correctly specified form at the 5% significance level. The tests in Table 6 suggests that the model suffers from group-wise heteroskedasticity, serial correlation and cross-sectional dependence. Therefore, it is necessary to rely on standard errors which are simultaneously robust to autocorrelation, heteroscedasticity and cross-sectional dependence.

Table 6*Estimated Regression Results*

Variables	Model 1	Model 2	Model 3	
	FE with Driscoll Kray Standard Errors	Pooled OLS with Panel Corrected Standard Errors (PCSE)	Short Run	Long Run
RI	- 5.98** (2.7758)	- 7.02 (5.67)	-1306.87 (1982.40)	-794.93 (1013.86)
EI	- 283.89 (347.06)	-21.42 (273.48)	-2926.79 (2587.75)	-1431.73 (1301.66)

AI	100.70 (67.59)	92.16** (43.9)	-29.03 (95.57)	-3.29 (49.96)
CI	100.15 (195.34)	123.52 (209.04)	604.58** (275.32)	299.05** (145.47)
PED	0.0015 (0.0011)	0.0116 (0.0015)	-	-
IGR	- 0.0125* (0.0066)	-0.0115 (0.0076)	-	-
PSE	- 0.0013 (0.0017)	- 0.0039** (0.0016)	-	-
CEX	0.0024 (0.0014)	0.0009 (0.0018)	-	-
APC	- 3.1432 (3.2678)	-1.7769 (2.7583)	-	-
ECT	-	-	-2.0372*** (0.0790)	

R²	0.13	0.13	
Time Period	18	18	17
Panels	23	23	23

Standard Errors are in parentheses.

P – value: *** P<0.01 ** P<0.05

Dependent Variable: Corruption Rate (*COR*)

4.1. Results/Findings

Results from model 1 show that *EI*, *AI*, and *CI* have an insignificant relationship with corruption because they have p-values more than 5% while the coefficient on *RI* is statistically significant because it has a p-value lower than 5%. The coefficient of *RI* shows that a unit increase in revenue decentralization will decrease corruption by approximately 6 units. Although the coefficients of *AI* and *CI* are not statistically significant, it is worth noting that they have a positive relationship with corruption. In Model 2, the coefficients of *RI*, *EI* and *CI* are insignificantly related to corruption as these variables have p values higher than 5%. However, the coefficients of *AI* has a positive and significant relationship with corruption. A unit increase in *AI* will lead to an increase in corruption by 92 units. Model 3 is estimated using the cross-section augmented autoregressive distributed lag model (CS ARDL) fiscal decentralization's short- and long-run effect on corruption. The Error Correction Term (ECT) in model 3 shows that there is long-run cointegration amongst the variables in the panel and this relationship is statistically significant at the 1% level. In this model, only *CI* is significantly related to corruption in the short and long run while *RI*, *EI* and *AI* are all statistically insignificant in both periods. A unit increase in *CI* will approximately lead to a 605 and 299 unit increase in corruption in the short and long run respectively.

5. DISCUSSION

The effect of *AI* and *CI* demonstrates that expanding the revenue-raising capacity of local governments and allowing them to execute capital projects leads to a long-term increase in corruption in the public sector. *RI* reflects the bulk of Local government revenue

financed by statutory transfers from the federal and State governments. The effect of *RI* demonstrates that increases in intergovernmental transfers to Local governments decrease corruption. The message is that if one wants to reduce corruption at the Local level, there should be some oversight or regulatory body over revenue-generating functions assigned to Local governments. Making Local governments directly responsible for their own financing appears to increase corruption and, hence, non-adherence to audit law.

The effect of *EI* on public sector employment is consistent with Martinez et al. (2017) argument that local governments may not fully accept responsibility for their spending decisions because total expenditure does not reflect their own economic policies in the long run, but that of the state government. This explains the insignificant effect of the corruption-reducing effect of expenditure decentralization (*EI*) on corruption at the local government level.

The paper provides evidence that FD can have quite different impacts on corruption depending on the institutional environment and the type of FD in place. The results of this paper showed that decentralizing intergovernmental transfers (*RI*) makes Local governments less corrupt. This is because the State and Federal governments maintain some level of oversight over the funds released to local governments via statutory allocations. In cases where FD is executed in total discretion without monitoring or oversight, its impact on corruption will be enhanced, as demonstrated by the coefficient of *AI* and *CI*.

6. IMPLICATION TO RESEARCH AND PRACTICE

The results in Table 5 showed that increasing intergovernmental transfers via revenue and expenditure decentralization (**RI** and **EI**) makes local governments less corrupt. This is because the State and Federal governments maintain some level of oversight over intergovernmental transfers released to local governments via the State Joint Local Government Account. The effect of **RI** demonstrates that increases in intergovernmental transfers to local governments decrease corruption. On the other hand, the effect of **AI** and **CI** demonstrates that expanding the revenue-raising capacity of local governments and allowing them to execute capital projects without any oversight leads to a long-term increase in corruption in the public sector.

The message is that if one wants to reduce corruption at the local level, there should be some oversight or regulatory body over revenue-generating functions assigned to local governments. Making local governments directly responsible for their own financing appears to increase corruption and, hence, non-adherence to appropriation law. **RI** reflects the bulk of Local government revenue financed by statutory transfers from the federal and state governments. As such, the corruption-reducing effect of revenue decentralization (**RI**) could result from the State government's interference in Local government affairs. In cases where fiscal decentralization is executed in total discretion without monitoring or oversight, its impact on corruption will be positive, as demonstrated by the coefficient of **AI** and **CI**.

7. CONCLUSION AND RECOMMENDATION

The study used panel data from 2006 to 2023 to examine the effect of FD on corruption in the 23 Local government areas of Kaduna State. Four indicators of FD were utilized in three separate models to assess the effect of FD on corruption. It is worth noting that **AI** and **CI** were the only FD indicators that were positively and significantly related to increasing corruption across all models. In addition, **RI** was negatively related to corruption in two of the models, while the **EI** had both a positive and negative relationship with corruption. Based on these findings, the state government is encouraged to promote FD by increasing local governments' revenue-generating capacity whilst also putting measures in place, such as engaging the EFFC, ICPC or the State House of Representatives to perform oversight functions over the expenditure (CI & EI) and revenue-generating process (AI) of local governments to prevent the abuse of public funds and hence reduce corruption.

8. FUTURE RESEARCH

Further research can be carried out to examine the potential effect that fiscal decentralization might have on inequality. Decentralization of revenue and expenditure results in different local governments responding differently to people within the same State, which leads to an unequal allocation of public services, irrespective of the people's needs. An additional avenue for future research could be examining the impact of fiscal decentralization on the provision of regional public services. By examining the effectiveness of public service delivery (such as education and health) rather than policy outcomes like economic growth, this research could be expanded in light of the Oates theorem regarding preference matching and (consumer and producer) efficiency.

Similarly, this research may be extended to examine how fiscal decentralization affects the makeup of public expenditure.

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