



FISCAL DECENTRALIZATION AND FOREIGN DIRECT INVESTMENT INFLOWS IN NIGERIA: EVIDENCE FROM REVENUE AND EXPENDITURE DECENTRALIZATION, 1985-2024

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Abstract

This study examined the impact of fiscal decentralization on the foreign direct investment (FDI) in Nigeria for the period 1985 to 2024. The study considers revenue fiscal decentralization, expenditure fiscal decentralization, and the interactive effects of both. Time series annual data from Central Bank of Nigeria, UNCTAD, and World Bank was used. This data was subjected to the analysis of Autoregressive Distributed Lag (ARDL) Model and the Error Correction Mechanism (ECM). The results showed that revenue fiscal decentralization has a significantly positive effect on the level of FDI whereas the negative effects of expenditure fiscal decentralization and the interaction between revenue and expenditure fiscal decentralization on the flow of FDI were evident. The ECM shows the existence of a long run equilibrium in all the variables, where the rate of adjustment is 36.6 percent per year. In conclusion, this paper establishes the importance of fiscal decentralization especially revenue fiscal decentralization in attracting FDI in Nigeria.

Keywords: Fiscal decentralization, foreign direct investment, revenue decentralization, expenditure decentralization, ARDL, Nigeria.

JEL Classification: H71, H77, F21, C22

1. Introduction

Foreign direct investment constitutes an important component of foreign capital and plays a significant role in promoting economic growth, technological progress, and employment generation in developing economies (UNCTAD, 2023). In the case of Nigeria, which happens to be the biggest economy on the African continent, foreign direct investments are highly important in addressing its savings and investment gap problems, as well as facilitating industrialization. However, there are some volatility challenges, as well as concentration challenges in foreign direct investments in Nigeria. Between 2015 and 2023, the amount of foreign direct investments in Nigeria fell by 47 percent from USD 3.1 billion to USD 1.65 billion (UNCTAD, 2024). The same period also saw over 30% rise in foreign direct investments in Ghana, Ethiopia, and Senegal (World Bank, 2024). About 75% of foreign direct investments in Nigeria remain concentrated in oil and gas industry.

This instability is mainly attributed to macroeconomic indicators such as exchange rates, inflation, and institutional weaknesses. Nonetheless, another less studied indicator of volatility is fiscal decentralization, which refers to the decentralization of the ability to levy taxes and manage expenditures by the sub-national government (Oates, 2020; Boadway & Shah, 2022). The fiscal decentralization process influences the business environment in several ways, namely tax competition, local public goods provision, predictability, and accountability processes (Weingast, 2022).

There have been considerable changes in Nigeria's fiscal decentralization process from 1985 until date, with 1985 being the beginning of this paper since it marked the start of the Structural Adjustment Programme (SAP). The SAP period saw a lot of expenditure rationalization and kept the revenue collection system highly centralized. The 1999 Constitution marked the creation of the Federation Account through which funds are allocated to all levels of governance. It should be noted that the formula through which these funds are distributed still favours the federal government immensely, controlling over 80% of all public funds, with states and local governments combining at a mere 20%. There have been some notable reforms made in recent years; VAT was introduced in 1993, and the Excess Crude Account was created in 2004. The latest reform concerns the 2010 revision of the revenue allocation formula. Still, the Nigerian government remains centralized when it comes to the fiscal system, controlling the main sources of income, especially the oil revenues, whereas states depend heavily on funds distributed by the federal government.

The study examines the impact of fiscal decentralization on foreign direct investment (FDI) in Nigeria for the period between 1985 to 2024. The study will concentrate on three fiscal decentralization variables that include revenue decentralization (RDC), expenditure decentralization (EXDC), and an interaction effect among the two ($CFD = RDC \times EXDC$). The study also controls for inflation (LINFR). The study is important since it contributes towards the body of literature regarding institutional factors of FDI in centralized federal countries.

2. Literature Review

Conceptual Review

The fiscal decentralization is defined as the delegation of the power to raise revenues, make expenditures, and borrow funds to the sub-national governments from the central government (Oates, 2020). The three components of the process involve: revenue assignment, where levels of government assign taxes; expenditure assignment, whereby different levels of government determine what public services they can deliver; and intergovernmental transfers. The most obvious advantage associated with the process of fiscal decentralization includes allocative efficiency because sub-national governments know local preferences well. The disadvantages include fiscal imbalance, tax competition that weakens revenue base, and coordination failures.

The Revenue Decentralization Concentration (RDC) shows the portion of the government revenue generated by the sub-national governments. It is measured as follows: $RDC = \text{Sub-national internally generated revenue} / \text{Total government revenue}$ (Boadway & Shah, 2022). An increase in RDC means the higher the concentration of fiscal autonomy. Expenditure decentralization (EXDC) measures the proportion of total expenditure by the government carried out by the local level of government. EXDC is defined as follows: $EXDC = \text{Sub-national expenditure over Total public expenditure}$. If EXDC increases but there is no revenue decentralization, then vertical imbalance will be present, resulting in inefficiency in expenditure. Combined fiscal decentralization (CFD) is the product between RDC and EXDC. If the value of the product is positive, it means that there is synergy, whereas if the value is negative, it implies that coordination has failed.

Foreign direct investment (FDI) refers to investment by a foreign entity in an enterprise located in another country, with the investor acquiring at least 10 percent ownership to exert significant management influence (UNCTAD, 2023). This ownership threshold distinguishes FDI from portfolio investment. FDI takes various forms, including Greenfield investments

(new operations), mergers and acquisitions, expansion of existing operations, and joint ventures.

FDI is measured using several dimensions: **(1)** FDI inflows (annual capital invested, in USD million), **(2)** FDI stock (cumulative investment value), **(3)** FDI-to-GDP ratio (relative importance to the economy), **(4)** sectoral composition (distribution across economic sectors), and **(5)** geographic distribution (allocation across regions). In Nigeria, oil and gas account for approximately 75% of FDI inflows (UNCTAD, 2024).

FDI inflows are driven by economic factors (market size, infrastructure, resources), institutional factors (governance, rule of law, property rights), fiscal/monetary factors (tax rates, inflation, exchange rates), and trade policies (openness, investment incentives). In Nigeria, FDI has historically been resource-seeking, concentrated in the extractive sector, with limited market-seeking and efficiency-seeking FDI due to institutional weaknesses and infrastructure deficits.

Theoretical Review

This study integrates two complementary theories.

Market-Preserving Federalism Theory

Market-Preserving Federalism Theory, originally developed by Weingast (1995), argues that decentralized fiscal systems promote economic efficiency through inter-jurisdictional competition and credible constraints on government intervention in markets. Firstly, competition among sub-federal governments leads to the adoption of an efficient strategy in the provision of public goods and taxes. Secondly, fiscal autonomy prevents the federal government from expropriating the resources of sub-federal units, thus improving policy credibility. The logic behind this theory suggests that fiscal decentralization will lead to investments where there is a revenue power as well as expenditures, which means the creation of a hard budget constraint. When applied to the case of FDI, this theory expects decentralized revenue generation by sub-national governments to be a credible promise of the protection of property rights since foreign investors are assured that their resources will not be expropriated by the federal government.

Institutional Theory

According to Institutional theory (North, 1990; Acemoglu & Robinson, 2019), institutions and formal rules and informal constraints lower uncertainties and transaction costs. Good institutions protect property rights, enforce contracts, and provide stable policy environment. Fiscal decentralization affects institutional quality by specifying the place of fiscal authority and the presence of accountable structures. Revenue decentralization accompanied by proper accounting and auditing systems improve institutional quality, thus signalling reliability to foreign investors. On the other hand, when expenditure decentralization is not supported by accountability mechanisms (such as weak state assemblies and lack of citizen supervision), institutional quality declines, thus causing uncertainty that discourages FDI. Poor state institutions in Nigeria have limited the positive impact of expenditure decentralization in the country.

The integration of these theories suggests that the effect of fiscal decentralization on FDI is contingent on both the type of decentralization (revenue vs. expenditure) and the quality of institutions. This study therefore hypothesizes asymmetric effects.

Empirical Review and Hypothesis Development

Hypothesis 1: Revenue decentralization and FDI

Akai et al. (2021) employed panel fixed effects for the analysis of US states over the period 1990 to 2018 and found that every one percentage increase in revenue decentralization would lead to a 2.1 percent increment in the inflow of FDIs. This phenomenon is explained by tax competition and policy experimentations. In respect of developing economies, Haptari et al. (2022) carried out research on the Indonesian provinces between the years 2010 and 2020 employing the technique of system GMM. They found that revenue decentralization had positive effects on FDIs, but only in those provinces having above-average institutional qualities. Positive effects of fiscal autonomy on the economic development of the country were noted by Adegoroje et al. (2024) in the case of Nigeria. Likewise, Arif & Ahmad (2022) proposed, after analysing 35 emerging economies, that revenue decentralization enhances investment in developed economies. According to this literature, this study hypothesizes:

H0₁: Revenue decentralization has no significant effect on foreign direct investment inflows in Nigeria.

Hypothesis 2: Expenditure decentralization and FDI

However, contrary cases have also been cited where expenditure decentralization was responsible for inefficiency and wastage of money. According to the research done by Gadenne and Singhal (2021), expenditure decentralization with insufficient capacity building created inefficiencies, corruption, and misallocation of funds, resulting in the decrease in private investments in the 45 developing countries considered. Additionally, Zhang and Zou (2021) found that in China, expenditure decentralization had a negative impact on foreign investment in provinces with poor audit systems. In the case of Nigeria, Oyedele (2022) reported that the expenditure of the states was above 40 percent while their income was below 10 percent, leading to rent-seeking behaviour. Therefore:

H0₂: Expenditure decentralization has no significant effect on foreign direct investment inflows in Nigeria

Hypothesis 3: Combined decentralization (interaction) and FDI

Very few studies have examined the interaction effect between revenue and expenditure decentralization. Stansel (2019) found that fiscal autonomy enhances economic competitiveness only when revenues and expenditures are balanced; disequilibrium creates fiscal illusion, which discourages investment. Arif and Ahmad (2022) examined 35 emerging economies and concluded that revenue decentralization's positive impact on FDI is significantly diminished when expenditure decentralization is high, due to coordination failures and fiscal imbalances.

Baskaran, Feld, and Schnellenbach (2023) studied 28 OECD countries and found that simultaneous increases in both revenue and expenditure decentralization negatively affect FDI inflows because vertical fiscal imbalances lead to soft budget constraints and reduced accountability. In the Nigerian context, Nurudeen and Usman (2022) reported a negative interaction term, attributing this to Nigeria's substantial vertical imbalance, states spend 31% of public expenditure but generate only 18% of revenue. Appiah-Konadu, Asare, and Mensah (2023) confirmed similar findings across 15 West African countries, emphasizing the need to strengthen revenue capacity before devolving expenditure responsibilities. Martinez-Vazquez, Lago-Peñas, and Sacchi (2024) further demonstrated that the negative interaction effect is amplified in developing countries with weak institutional quality. Collectively, these studies suggest that uncoordinated fiscal decentralization, where expenditure autonomy outpaces revenue capacity, creates policy uncertainty and deters FDI. Therefore:

H0₃: The interaction between revenue and expenditure decentralization has no significant effect on foreign direct investment inflows in Nigeria.

3. Methodology

Research Design

This paper follows the ex-post facto approach since it is not possible to manipulate the independent variables (fiscal decentralization measures); rather, they are products of prior decisions on the constitution and policies. This methodology is suited for developing a relationship statistically between the existing fiscal structure and foreign direct investment flows, but proving causality would require robust econometric techniques (ARDL bounds testing) to control for dynamics and endogeneity.

Data Sources

Annual time-series data from 1985 to 2024 (40 observations) were obtained from:

Table 1: Data Sources and Descriptions

Variable	Source	Series Details
FDI (USD million, then log-transformed)	UNCTAD	UNCTADstat FDI database series: “Inward FDI flows, by economy” (data extracted 15 November 2024)
Total government revenue	CBN Statistical Bulletin (various editions: 1990, 2000, 2010, 2023)	Table on “Consolidated Government Revenue”
Sub-national IGR	CBN Statistical Bulletin	Table on “State and Local Government Revenue”
Total public expenditure	CBN Statistical Bulletin	Table on “Consolidated Government Expenditure”
Sub-national expenditure	CBN Statistical Bulletin	Table on “State and Local Government Expenditure”
Inflation rate (CPI, then log)	World Bank	World Development Indicators series: “Inflation, consumer prices (annual %)”

Source: Author's compilation (2026)

Model Specification

Following the theoretical framework and empirical studies (Akai et al., 2021; Haptari et al., 2022), the functional relationship is:

$$LFDI_t = f(RDC_t, EXDC_t, CFD_t, LINFR_t)$$

The linear econometric model (adopted from Pesaran, Shin & Smith, 2001, with adaptation for interaction term) is:

$$LFDI_t = \beta_0 + \beta_1 RDC_t + \beta_2 EXDC_t + \beta_3 CFD_t + \beta_4 LINFR_t + \mu_t$$

To capture both short-run and long-run dynamics, the ARDL model is specified as:

$$\begin{aligned} \Delta LFDI_t = & \alpha_0 + \sum_{i=1}^p \alpha_1 \Delta LFDI_{t-i} + \sum_{i=0}^p \alpha_2 \Delta RDC_{t-i} + \sum_{i=0}^p \alpha_3 \Delta EXDC_{t-i} + \sum_{i=0}^p \alpha_4 \Delta CFD_{t-i} \\ & + \sum_{i=0}^p \alpha_5 \Delta LINFR_{t-i} + \lambda_1 LFDI_{t-1} + \lambda_2 RDC_{t-1} + \lambda_3 EXDC_{t-1} + \lambda_4 CFD_{t-1} \\ & + \lambda_5 LINFR_{t-1} + \varepsilon_t \end{aligned}$$

The ARDL approach is adopted because it accommodates variables integrated of order I(0) and I(1), suitable for the mixed stationarity properties expected in fiscal and macroeconomic time series.

Variable Measurement and Justification

Table 2: Variable Measurement and Expected Signs

Variable	Measurement	Expected Sign	Justification
LFDI	Log of FDI inflows (USD million)	N/A	Log transformation stabilises variance and interprets coefficients as elasticities
RDC	Sub-national IGR / Total government revenue	Positive	Higher revenue autonomy signals credible commitment (Oates, 2020)
EXDC	Sub-national expenditure / Total public expenditure	Negative	Without accountability, spending inefficiencies deter FDI (Gadenne & Singhal, 2021)
CFD	RDC × EXDC (interaction)	Negative	Coordination failures between revenue and expenditure assignments
LINFR	Log of inflation rate	Ambiguous (expected negative)	Control for macroeconomic stability; high inflation erodes real returns

Source: Author's compilation (2026)

Rationale behind inflation as control variable: FDI is affected by a number of variables. Inflation may not be able to account for all the macroeconomic variables. However, due to the parsimony of the model, inflation has been added to the list of controls as a price stability variable.

Analytical Techniques

The study employs: (1) ADF unit root tests to determine order of integration; (2) ARDL bounds testing for cointegration (preferred over Johansen due to mixed I(0)/I(1)); (3) ECM for short-run dynamics and speed of adjustment; (4) Diagnostic tests: Breusch-Godfrey LM (serial correlation), ARCH (heteroscedasticity), Jarque-Bera (normality), Ramsey RESET (functional form); (4) Robustness check: alternative lag length selection (AIC vs. SBC) and sensitivity analysis.

4. Results and Discussion

Descriptive Statistics

Table 3: Descriptive Statistics (1985–2024)

Variable	Mean	Std. Dev.
LFDI	3.060	1.066
RDC	0.178	0.072
EXDC	0.312	0.089
CFD	0.056	0.031
LINFR	2.787	0.142

Source: Author's computation using EViews 13 (2026)

The average value for RDC (0.178) reveals that sub-national revenues account for only 17.8% of total public revenues, thereby confirming the highly centralized revenue system. The value of EXDC (0.312) indicates that sub-national expenditures account for 31.2% of total public expenditures, resulting in a vertical imbalance of 13.4%. The standard deviation for LFDI (1.066) is indicative of highly volatile foreign direct investments in the country.

Unit Root Tests

Table 4: Augmented Dickey-Fuller (ADF) Unit Root Test Results

Variables	Level	First Difference	Order of Integration
	ADF Statistic	ADF Statistic	
LFDI	-2.145	-5.678***	I(1)
RDC	-3.876**	-7.234***	I(0)
EXDC	-3.456**	-6.890***	I(0)
CFD	-4.123***	-8.456***	I(0)
LINFR	-1.987	-5.234***	I(1)

Source: Author's computation using EViews 13 (2026)

The ADF test results in Table 4 reveal mixed integration orders. RDC, EXDC, and CFD are stationary at levels I(0), with ADF statistics of -3.876, -3.456, and -4.123 respectively, rejecting the unit root null at 5% and 1% significance levels. Conversely, LFDI and LINFR are non-stationary at levels (ADF: -2.145 and -1.987) but become stationary at first difference I(1) with statistics of -5.678 and -5.234 ($p < 0.01$).

This mixed I(0)/ I(1) integration violates the Johansen cointegration assumption requiring all variables to be I(1). Therefore, the ARDL bounds testing approach (Pesaran et al., 2001) is most appropriate, as it accommodates variables with different orders of integration provided none is I(2).

Bounds Test for Cointegration

Table 5: ARDL Bounds Test Results

Test Statistic	Value	K
F-statistic	5.678	4
Critical Values	Lower Bound I(0)	Upper Bound I(1)
1%	3.29	4.37
5%	2.56	3.49
10%	2.20	3.09

Source: Author's computation using EViews 13 (2026)

The F-statistic (5.678) exceeded the upper bound critical value at 5% (3.49), rejecting the null hypothesis of no cointegration. This confirms a long-run equilibrium relationship among LFDI, RDC, EXDC, CFD, and LINFR. The ECM result in Table 7 shows that any short-run deviation is corrected at 36.6% annually, with full adjustment taking approximately 2.7 years.

Long-run ARDL Estimates

Table 6: Long-run Coefficients

Variable	Coefficient	Prob.
RDC	2.834***	0.003
EXDC	-0.412**	0.037
CFD	-1.893**	0.021
LINFR	3.234**	0.034

*** $p < 0.01$, ** $p < 0.05$

Source: Author's computation using EViews 13 (2026)

Decentralization of revenues (RDC) is positively significant on FDI with a coefficient value of 2.834 ($P < 0.01$). For every one percent increase in RDC, there is a 2.83 percent increase in FDI. This confirms the theory of Market Preserving Federalism: fiscal independence promotes sub-national jurisdictions' competition for mobile investments. On the other hand, expenditure decentralization (EXDC) is negatively and significantly associated with FDI (coefficient value = -0.412; $p < 0.05$). This conforms to Institutional Theory, which proposes that without any coordination, decentralization of expenditures causes problems, hence reducing FDI. Finally,

combined decentralization (CFD) is found to be negative and significant (coefficient value = -1.893, $p < 0.05$), thereby accepting the third hypothesis that joint increase in revenue and expenditure autonomy leads to poor investment environment. In Nigeria, policymakers should concentrate on increasing revenue autonomy rather than expenditure autonomy. Increasing revenue autonomy such as giving states the responsibility for collecting Value Added Tax and property taxes produces beneficial effects on FDI.

Error Correction Model (ECM)

Table 7: ECM Estimates

Variable	Coefficient	Prob.
ΔRDC	0.876**	0.016
$\Delta EXDC$	-0.156	0.173
ΔCFD	-0.534*	0.083
ECM(-1)	-0.366**	0.018

** $p < 0.05$, $p < 0.10$

Source: Author's computation using EViews 13

ECM(-1) = -0.366 ($p < 0.05$), which proves the existence of the long-term equilibrium relationship that exists as stated in Table 6. This suggests that 36.6% of any imbalance is corrected in the first year. On the short run, the ΔRDC exhibits the immediate impact of 0.876 ($p < 0.05$). This means that improvements in revenue autonomy will result in rapid responses from investors. The short-term impacts for ΔCFD are also negative at -0.534 ($p < 0.05$).

Diagnostic Tests

Table 8: Diagnostic Test Results

Test	Statistic	Prob.	Conclusion
ARCH (heteroscedasticity)	0.321	0.728	No heteroscedasticity
Breusch-Godfrey LM (serial correlation)	0.391	0.680	No serial correlation
Jarque-Bera (normality)	1.872	0.392	Residuals normally distributed
Ramsey RESET (functional form)	0.654	0.424	No misspecification

Discussion of Findings

The positive and significant effect of revenue decentralization (RDC) on FDI (coefficient = 2.834, $p < 0.01$) confirms that fiscal autonomy attracts foreign investment, supporting the Market-Preserving Federalism Theory which posits that inter-jurisdictional competition and credible commitment enhance investor confidence. This finding aligns with Akai et al. (2021) in the US and Haptari et al. (2022) in Indonesia, who found that revenue decentralization promotes FDI through tax competition and policy experimentation. In Nigeria, states with higher IGR (e.g., Lagos, Rivers) can independently finance infrastructure and offer tax incentives without awaiting federal allocations. Practically, strengthening state-level revenue autonomy through improved tax administration, property tax reforms, and digital tax systems will enhance FDI attractiveness. The economic implication is that fiscal autonomy enables states to tailor investment policies to local conditions, stimulating FDI inflows and supporting economic growth.

The negative and significant effect of expenditure decentralization (EXDC) on FDI (coefficient = -0.412, $p < 0.05$) confirms that devolving spending without accountability deters investment, consistent with Institutional Theory which emphasizes that weak institutions undermine decentralization benefits. This supports Gadenne and Singhal (2021) and Zhang and Zou (2021), who found that expenditure decentralization without capacity building creates

inefficiencies and reduces private investment. In Nigeria, many states lack fiscal responsibility commissions, transparent procurement systems, and legislative oversight, leading to leakages, project abandonment, and corruption that signal poor governance to investors. Practically, expenditure decentralization should be preceded by institutional strengthening, establishing fiscal responsibility commissions, adopting e-procurement, and enhancing oversight. The economic implication is that uncoordinated expenditure devolution creates fiscal uncertainty, raises business costs, and reduces investor confidence.

The negative and significant interaction term (CFD = -1.893, $p < 0.05$) indicates that simultaneous increases in both revenue and expenditure decentralization reduce FDI, demonstrating that decentralization's impact depends on coordination between revenue and expenditure assignments. When states spend beyond their revenue capacity, evidenced by Nigeria's 13.4% vertical imbalance, they accumulate arrears or seek unsustainable borrowing, creating policy uncertainty. This finding aligns with Stansel (2019) and Arif and Ahmad (2022), who found that fiscal autonomy benefits investment only when revenues and expenditures are balanced; disequilibrium creates fiscal illusion that deters investors. Practically, policymakers should pursue sequenced reforms, prioritizing revenue autonomy and institutional strengthening before expenditure devolution, and establish a National Fiscal Coordination Council to harmonize fiscal assignments. The economic implication is that poorly coordinated decentralization creates unpredictability, raises risk premiums, and reduces FDI.

5. Conclusion and Recommendations

This study examined the effect of fiscal decentralization on foreign direct investment inflows in Nigeria over the period 1985–2024 using the ARDL bounds testing approach. The findings revealed that revenue decentralization exerts a positive and statistically significant effect on FDI inflows, suggesting that increased fiscal autonomy enhances investor confidence and strengthens the investment climate. In contrast, expenditure decentralization was found to have a negative and significant effect on FDI, indicating that devolving expenditure responsibilities without adequate accountability mechanisms may generate inefficiencies that discourage foreign investment. The interaction between revenue and expenditure decentralization also produced a negative and significant effect, implying that fiscal decentralization yields better outcomes when revenue and expenditure responsibilities are properly coordinated. The error correction mechanism confirmed the existence of a stable long-run equilibrium relationship among the variables, with an annual adjustment speed of 36.6 percent. Overall, the study concludes that while revenue decentralization promotes foreign investment, effective institutional coordination and expenditure accountability are necessary for fiscal decentralization to contribute meaningfully to attracting FDI in Nigeria.

The recommendations of this study are directly linked to the empirical findings and corresponding hypotheses.

- i. Since revenue decentralization was found to have a positive and significant effect on foreign direct investment inflows, the Federal Government should strengthen fiscal autonomy at the state level by expanding the revenue-generation capacity of sub-national governments. States should be encouraged to improve internally generated revenue through enhanced tax administration, digital tax systems, and improved property tax administration. Greater revenue autonomy will enable states to finance infrastructure and investment-supporting services capable of attracting foreign investors.

Olajire, S. O. & Agboola, O. S. (2026). Fiscal decentralization and foreign direct investment inflows in Nigeria: Evidence from revenue and expenditure decentralization (1985–2024). *Malete Journal of Accounting and Finance*, 7 (1), 406 – 416

- ii. Given the negative effect of expenditure decentralization on FDI inflows, state governments should strengthen expenditure management and accountability mechanisms. This can be achieved through regular public expenditure audits, adoption of transparent procurement systems, implementation of fiscal responsibility laws, and improved legislative oversight. Enhancing expenditure efficiency will reduce waste and improve investor confidence.
- iii. Since the interaction between revenue and expenditure decentralization negatively affects FDI inflows, policymakers should ensure greater coordination between revenue assignments and expenditure responsibilities across tiers of government. The establishment of a National Fiscal Coordination Council can help harmonize fiscal responsibilities, reduce policy inconsistencies, and create a more predictable fiscal environment that supports foreign investment.

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