INTER - GOVERNMENTAL FISCAL RELATIONS AND LOCAL GOVERNMENT IN NIGERIA: ISSUES AND PROSPECTS

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Abstract: Inter-governmental fiscal relations and its effect on local government in Nigeria has remained a worrisome issue. It is an issue that deals with the governmental arrangement as well as the finance to sustain the polity. The paper therefore examines the nature of inter-governmental fiscal relations and local government in Nigeria. The focus on inter-governmental relations is necessitated by the fact that revenue allocation is an integral aspect of inter-governmental relations in all federation. It is a conflict generating issue, the management of which is very crucial to the survival and growth of local government in Nigeria. The paper argues that there is need for local government financial autonomy for it to perform effectively, and for it to maintain its status as a third tier of government in Nigeria. It concludes that there is an urgent need to address revenue allocations and tax jurisdictions of the local governments in Nigeria to make it a formidable tool for service delivery at the grass root levels.

Keywords: Inter-governmental fiscal relations, Local government, fiscal transfers, fiscal federalism, finance and fiscal decentralization.

I. INTRODUCTION

One of the essential ingredients of federalism is the existence of a fiscal arrangement, which details tax jurisdiction and the functional responsibilities among the various levels of government (Teidi, 2003). The fiscal arrangement among the different tiers of government in a federal structure is often referred to as fiscal federalism or intergovernmental fiscal relations. One major feature of this is Fiscal decentralization – the devolution of taxing and spending powers to lower levels of government, which has become an important theme of governance in many developing countries in recent years. Accordingly, restructuring of governmental functions and finances between the national and the lower levels of government has entered the core of the Development debate (Fjeldstad, 2001).

Most countries have several tiers of government. In addition to the national level, many countries have two subnational levels; i.e state and local governments. In many countries the lower levels of government undertake important fiscal functions, both on the expenditure side and with respect to revenues (Broadway et al., 2000). In such federal systems various forms of fiscal arrangements between the national and lower levels determine the way in which taxes are allocated and shared among the various levels of government, and how funds are transferred from one level to another. Thus, intergovernmental relations, both vertical (between levels of government) and horizontal (within levels) are important for the development and operation of an efficient and effective public sector. According to Bird (1990:281), it is the ‘workings of the myriad of intergovernmental relations that constitute the essence of the public sector in all countries’.

A key issue in intergovernmental fiscal relations is the assignment of functions and finances to different levels of government. This can also be described as the allocation of the authority and responsibility for the public sector decisions among different power centres. The traditional theory of fiscal federalism identifies three major functions for the public sector; macroeconomic stabilization, income distribution and resource allocation. The theory assigns the stabilization and redistribution of functions to the national government, while it assigns a significant role to sub-national governments in allocating resources (Fjeldstad, 2001).

The issue of Fiscal Federalism has engaged various commissions and committees since the colonial days in Nigeria. Yet, even today, this issue continues to be in the front burner of national discourse. For example, the calls or demands for resource control clearly demonstrate that fiscal federalism is still an unsettled issue. Yet it is an issue we must find a way to resolve if we are to continue as a federation (Ozo-Eson, 2005).

Intergovernmental fiscal relations concern the division of public sector functions and finances among different tiers of government. In undertaking this division, economics emphasize the need to focus on the necessity for improving the performance of the public sector and the provision of their services by ensuring a proper alignment of responsibilities and fiscal instruments. While economic analysis, as encapsulated in the theory of fiscal federalism, seeks to guide this division by focusing on efficiency and welfare maximization in determining optimal jurisdictional authority, it needs to be recognized that the construction of optimal jurisdictional authority in practice goes beyond purely economic considerations. Political considerations, as well as historical events and exigencies, have in practice, played major roles in shaping the inter-governmental fiscal relations in most federations (Musgrave, 2000 and Oates, 1972).

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II. Conceptual Discourse

There are three concepts central to our discourse in this paper. These are: Intergovernmental Relations, Intergovernmental Fiscal Relations and Local government.

Intergovernmental relations (IGR) involve the patterns of cooperation among various levels of government in federal system (Fatule and Adejuwon, 2008:86). It is therefore not surprising that although IGR can be defined as the interactions that take place among the different levels of government within a state; it is much more specifically applied to ‘permutations and combination of relations among the units of government in a federal state’ (Olowu, 2006:138). As noted by Aiyede (2005:222), the very nature of IGR is such that it calls for a deeper understanding of the financial engagements between and among the tiers of government within federalism. According to him, IGR can be effective and authentic only in a democratic setting, because typically, they involve mutual recognition, cooperation, respect, bargaining and negotiation. Because dictatorship often carries the possibility of the national government usurping federation functions, it remains a threat to institutionalizing intergovernmental relations.

Intergovernmental fiscal relations or fiscal arrangements means how the various levels of government in a country/state constitutionally relates both vertically and horizontally in the sharing of the financial resources of the country and in the distribution of resources. The whole idea of intergovernmental fiscal relations hinges on what is often referred to as “statutory allocation” or more popularly known as “Revenue Allocation” (Teidi, 2003). Intergovernmental fiscal relation refers to the allocation of responsibility for expenditure and powers to raise revenue by different spheres of government. A system of intergovernmental fiscal relations includes the design of a system of transfers to overcome the problem of “mismatch” between such responsibilities and powers. Musgrave (2000) defines “fiscal federalism” as that which concerns the division of public sector functions and finances among different tiers of government.

Intergovernmental fiscal relations, according to Ebajemito and Abudu (1999) are anchored on the premise that uneven geographical distribution of resources manifest in most countries. Therefore in order to harness and distribute these resources equitably, call for intergovernmental fiscal relations, therefore are modalities for the transfer of purchasing power from the richer to the poorer regions or states in order to reduce inequality in the provision of quality and social cohesion in a country.

Another concept central to our discourse in this paper is local government. The term local government has been defined in different ways, depending on the orientation and experience of its users. Local government is public affair organ that is closer to the people. Indeed, it is most people’s first contact with authorities. Local government according to Odion-Akhaine and Yunusa (2009:80-81) can be defined as a legal unit of government that is territorially, demographically and institutionally endowed to perform a range of functions at the local level. Its authorities may be derived from a central or intermediate legislation and are exercised with a degree of fairness.

Wraith (1984) defines local government as “the act of decentralizing power, which may take the form of deconcentration or devolution. Emezi (1984) on the other hand perceived local government as “system of local administration under local communities that are organized to maintain law and order, provide some limited range of social amenities, and encourage cooperation and participation of inhabitants towards the improvement of their conditions of living. It provides the community with formal organizational framework which enables them to conduct their affairs effectively for the general good” Awa (1981) sees local government as “a political authority set up by a national or state as a subordinate authority for the purpose of dispersing or decentralizing political power”.

The above definitions bring out the key elements of local government autonomy. First, the local government unit should have a legal personality distinct from the state and federal governments. Second, the local government ought to have specified powers and functions distinct from the state and federal governments. Third, the local government has to operate independently of the state and federal governments. That means that the local government is not an appendage or field office of the state or federal government. Fourth, local government ought to have the ability to make its own laws, rules and regulations. Fifth, local government should have the ability to formulate and execute its own policies and the right to recruit, promote, develop and discipline its own staff.

III. Intergovernmental Fiscal Relations in Nigeria

In most of the countries there are several levels of government at work; central government and lower levels of government. Many of the important functions of government are carried out at lower levels, and certain kinds of education are implemented at the country, municipal or city level. Or perhaps the lower levels of government collect certain revenues, which they share, or do not, with the central governments. That is why it is said that in different states there are different forms of inter-governmental fiscal relations. They differ according to which level of authority conducts which function, which level of government collects which revenue, how transfers are allocated from one level to another and so on. The most important reason for the reform of inter-governmental fiscal relations in the transitional countries is the rise in the number of proponents of fiscal decentralization – the process through which the power to make decisions about revenue and expenditure is devolved from higher to lower levels of government (Conway, 2005:128).

The way intergovernmental fiscal systems are organized varies from country to country. These differences partly reflect historical and geographical characteristics of each country, the degree of heterogeneity of the population and the extent of government
intervention in the economy. Given this diversity, how questions of inter-governmental structures and functions are resolved in practice will often differ from country to country (Bird, 1990). Although the diversity complicates broad generalization, reference to the experiences of other countries is often the only guide available. Despite its limitation, such experience may provide useful lessons in assessing the potential strengths and weaknesses of intergovernmental fiscal systems in any country (Bird and Vaillancourt, 1998).

In the context of Nigeria, however, given the historical commitment to federalism as the basis for coexistence and unity, fiscal federalism has long been an important and central feature of inter-governmental relations. Even though the construction of a stable and acceptable intergovernmental fiscal arrangement has been the subject of various commissions, committees and other efforts since the amalgamation of Southern and Northern Nigeria in 1914, the issues remains on the front burner today, still evoking a great deal of passion and virulent contestation. The stalemate over this matter in the past Political Reform Conferences and walk-outs by delegates especially from the South – South attest to this (Ozo-Eson, 2005).

Nigeria’s fiscal federalism has emanated from historical, economic, political, geographical, cultural and social factors. In all of these, fiscal arrangements remain a controversial issue since 1946. Therefore, there exist unresolved issues on this matter. When the country was under the military rule, it was thought that the type of governance exacerbated the fiscal arrangements among the three levels of government. During military rule, the federal structure was only on paper while the government was unitary (Ekpo, 2004:3).

One of the major problems confronting intergovernmental fiscal relationships in Nigeria has to do with reconciling state/local autonomy with strong federal control under the tripartite arrangement consisting of federal, state and local governments (Teidi, 2003). This also relates to the disposition of power to raise revenues and incur expenditure among the different levels of government.

Over the years, fiscal commissions were established to work out fiscal and financial arrangements that were consistent with the assignment of powers and responsibilities to each level of government (Eboh and Igbokwe, 2006). However, with the intervention of the military in Nigerian politics, especially in 1966, Nigeria was governed more or less like unitary state which negates the effective functioning of fiscal federalism. With the return to democratic rule, there has been significant movement towards decentralization. This derives from the perception that the closer government is to the people the better it can respond positively to the demand of the citizenry (Odoko and Nnanna, 2006).

In Nigeria, there is a school of thought that maintains that some functions currently assigned to the federal government should be relinquished to states. Each federating unit should develop at its own pace by harnessing its own resources towards achieving planned development. They should develop their extractive capacity and pursue their development choices and preferences based on the resources available to them. This would ease the apprehension that resources from one area of the country are being siphoned for the development of other areas. At the same time, however, all the federating units would ensure the financial viability of the centre. The country’s fiscal federalism would thus be tailored more towards stimulating divergent economic growth than in pursuing welfare policies in revenue allocation.

The factors that would ensure a formula for equitable and stable revenue allocation among the three orders of government include:

- adoption of a uniform derivation principle,
- giving adequate weight to the equality of states;
- giving adequate attention the to development of natural resource producing areas; and
- sharing of revenue based on the responsibilities of each order of government.

Fiscal federalism in Nigeria is at the heart of a public debate within the country over why its enormous public resources have delivered such poor results in terms of services available to the majority of citizens. In their analysis of the political economy of the fiscal relations and service delivery in Nigeria, Odoko and Nnanna (2006) notes that:

The debate on Nigeria’s fiscal relations hinges on the fundamental question of who gets what from the national cake, when and how. This is fundamental, given that Nigeria as a monolithic economy gets over 80 percent of its revenue from crude oil; by virtue of the constitutional provision, this revenue must be disbursed to the three tiers of government. It also explains why the formula for revenue allocation has continued to be at the heart of public debate and why public office holders are hardly held accountable for the misuse of revenue derived from national oil wealth.

A widespread opinion shared in policy arenas, academic circles, and popular media, is that if resources are redistributed between the three tiers of government, by increasing the share of sub-national governments, the problem of wasted public resources will be solved. To this end, we advocate a new revenue sharing formula in the country.

For financially healthy local governments to exist, responsibilities and functions must be allocated in accordance with their taxing power and ability to generate funds internally. The constitutional provision that recognizes local governments’ power in this regard must give them full freedom to operate and this must be well guaranteed and adequately protected. These measures, coupled with a review of the revenue-sharing formula, the granting of fiscal autonomy and fiscal discipline as well as making local government responsive, responsible and accountable to the people will set local governments free from the fiscal stress promoted and strengthened by the 1999 constitution (Akindele et al, 2002)
The introduction of democratic government in 1999 re-echoed the problems of intergovernmental fiscal arrangement among the different levels of government. The issue of revenue allocation and the sharing formula has generated such intense debate that led to the demand of a national conference. It was during this period that the resource control phenomena rose to an unprecedented dimension. The 1976 local government reforms were adopted to sub-national governments that can be financed from the revenue sources allocated to those governments. The result of this mismatching of functions and finances—often referred to as ‘vertical imbalances’—is that sub-national governments are generally dependent upon transfer from higher levels of government. Thus, Bird (1990) argues that ‘money is at the heart of intergovernmental matters’. One of the contending issues in Nigeria’s fiscal federalism relates to revenue-sharing among the three orders of government. This issue is the “derivation principle”, a constitutional provision that requires that the federal government return 13 percent of revenues from the natural resources of a given state back to that state. Many Nigerians want this percentage increased. Another problem in Nigerian federal finance is how to allocate revenue between the two or more orders of government so that each government has the financial capacity to perform the functions assigned to it. The challenges of intergovernmental fiscal relationship in Nigeria hinge on the equity of the expenditure assignment and revenue raising functions among the three tiers of government. The revenue sharing and expenditure assignment formula has been generally inadequate in addressing the needs and resource gaps in the three levels of government in Nigeria.

IV. Local Government Financial Autonomy: The Nigerian Experience

The debate on local government autonomy focuses on what powers and functions the central or regional or state government should grant to the local units within the political system. However, within the Nigerian context, the 1976 local government reforms gave the country not only the definition of local government, but also the basic rudiments of local government autonomy (Akpan and Ekanem, 2013). It is important to note that there is never a time in Nigeria’s postcolonial political history that local governments operated independent of both the state and federal governments, which is the crux of local government autonomy. The search for this kind of local government system has been a mirage. Since the inception of the system of local government in Nigeria, there had been persistent clamour for the autonomy of the local government as the third tier of governance in the federation. It is interesting to note that even the federal government has in recent times joined in championing the course of local government autonomy.

Local Government fiscal autonomy is derived from the fiscal federalism as is operated in the Nigerian federation. Fiscal federalism is the transfer of functions, resources and authority to peripheral levels of government. It also relates to the “disposition of tax powers,” retention of revenue and methods adopted in sharing centrally collected revenue in accordance with the constitutional responsibilities of all levels of government (Osawke, 1999:524). The issue of relative fiscal autonomy and independence of the local government in a true federal structure goes with the corollary issue of the correspondence of government functions and revenue sources. Local governments have been excessively dependent on the federation account. This dependency must be reduced if the federating units are to be free to pursue their developmental goals without being hampered by the unpredictable fluctuations in their shares of the federation account (Ekpo, 2004:29-30).

One of the nagging problems of Nigeria’s federalism is the persistent failure to grant fiscal autonomy to local government as a third tier of government. Under a true federal structure, the autonomy of local government is adequately guaranteed. Although decentralization policies have been introduced in some West African States, including Nigeria, much success has not been attained towards granting autonomy to local government. This is due to the inadequacy of legal framework and constitutional provisions to guarantee the autonomy of local governments (Akinboye, 2007).

The issue of autonomy and control of local government constitute a great cog in the wheel of progress of local government in Nigeria. Lack of fiscal autonomy weighs heavily against the progress and growth of local government as a third tier of government in Nigeria and hamper its efforts at providing sustainable development at the grassroots level (Aworawo and Akpan, 2003). The struggle for autonomy by local governments dates back to the colonial period when local government administration was exclusively in the hands of colonial masters. It was the issue of autonomy and control, which was seen as one of the greatest problems of local government administration in Nigeria (Aworawo and Akpan, 2003). The search for autonomy and the effort of local government to free itself from different forms of control has been one of the major problems faced by local government in Nigeria till date. The issue of local government autonomy has generated a lot of debate in the political discourse of the developing world. These recurring debates evolved out of the increased awareness both on the part of the policy makers and the people about the effectiveness of local government as harbinger of national, socio-political and economic development, and the hallmark of participatory democracy in most nations of the world.

It is important to note that considering Nigeria’s federalism and constitution there can never be an absolute fiscal autonomy because of the interdependence of the three levels of government and this bring into focus the intergovernmental relations of local government.
autonomy. The federal, state and local governments rule over the same population. If they are to achieve the purpose of their creation and not to waste the meagre resources at their disposal, there must be a definition of the boundaries or arena of operation of each of them. In essence, when one talks of local government autonomy in Nigerian’s polity, it refers to the relative independence of local government control by both the state and federal governments. Therefore, it is the nature and structure of transactions or interactions between the three levels of government that reveals the degree of local government autonomy (Agunyai, Ebirim and Odeyemi, 2013).

V. Local Government and Intergovernmental Fiscal Relations

On the contemporary world, all federal systems have found it imperative to engage in a formal and informal interaction (intergovernmental relations) between or among levels of government in the polity (Obiyan, 2009). There is the felt need that since the ultimate essence of all levels of government in a political system is the maximization of the welfare of its citizen and promotion of their happiness, it becomes necessary for the various levels of government to cooperate, in order to overcome any impediments or deadlocks created by constitutional rigidity or other factors, with a view to enhancing the speed and quality of service delivery and a device for mitigating inter governmental conflicts.

One of the positive legacies of military rule in Nigeria is the rationalization of the local government system and its elevation to the status of a third-tier of government. The 1979 Constitution having encapsulated most of the 1979 local government reform provisions therefore launched the country into a new era of tripartite intergovernmental relations. Unfortunately, in many quarters, there is confusion as to the implications of the new third – tier status of Nigerian local government (Olowu, 2006). Therefore, attempts by successive governments in Nigeria to reinvent the tradition of local governance in federalism by placing local government under federal control, granting it autonomy and entrenching constitutional provisions to that effect have generated much controversy and inter-governmental rivalries among the Federal, State and Local authorities over issues of autonomy and control. The problems over the constitutional status and structure of local government, extent and mode of interference in local matters, and creation of new local government councils, among others, are fallout of the controversies and rivalries (Osaghae, 2005).

Unarguably, fiscal federalism – the whole idea of how money is raised through taxation, etc and spent through appropriation – is usually one of the most contentious issues in federal systems. In Nigeria, revenue allocation problems have constituted, perhaps the most teething problems for various governments which failed to take a number of actions on revenue matters, sometimes touching off acts of provocations (Eminue, 2006). In a federal system like Nigeria, local governments are close to the people and hence could effectively alter socio-economic and political conditions within their jurisdictions. Apart from providing and maintaining basic infrastructures, local governments can complement the economic activities of other levels of government. Local government fiscal operations can complement the economic activities of other levels of government. Fiscal operations at the local government level become significant if macro-economic stability is necessary in a wider economy. If fiscal imbalance appears rampant at the local level, it could pose problems for macroeconomic management of the economy (Ekpo and Ndebbo, 1998). In the era of structural adjustment, local governments face more challenges in terms of struggling to be less dependent on the centre and the state for financial resources.

There is no gainsaying the fact that the most severe problem facing local government in Nigeria is the fiscal one. This problem has been provoked by a number of factors, including ‘over dependence’ on statutory allocations from both the state and federal governments, deliberate tax evasion by the local citizenry, creation of non viable local government areas, differences in the status of local governments in terms of rural-urban dimension, and inadequate revenue and restricted fiscal jurisdiction. The issue of Fiscal Federalism has engaged various commissions and committees since the colonial days. Yet, even today, it remains a national issue. The various calls and demands for resource control clearly demonstrate that it is still an unsettled issue. Yet, it is an issue the country must find a way to resolve if Nigeria is to continue as a federation. Local government fiscal operations play an important role in the macro management of the economy. At the local level, certain goods and services are best provided through public means. Hence, issues of efficiency, resource allocation and distribution become relevant at the third level of government. In addition, it is generally agreed that certain taxes, levies and rates are better collected by local governments (Ekpo and Ndebbo, 1998).

Practically, and in true sense, local governments in Nigeria lacks autonomous financial power and are largely considered as an extension of state’s ministry. The inherent nature of this problem has caused subservience, a situation where local government waits for the next directives from state government before the former could think of, let alone embark on developmental projects. This has made local government an object of control and directives (Mbay; Audu and Aliyu, 2014).

Intergovernmental relation between State and Local Government in Nigeria is a crude type of master-servant relationship. Any chairman of local government that wants to do something independently outside the one dictated by the state executive will be frustrated and finally removed through the use of the state apparatus like the court. State House of Assembly or the concerned local government council will be used to impeach their council chairman.

VI. What is to be done? (The way forward)

Following our earlier submissions in this paper, it is clear that there is a need to revisit the old revenue sharing and expenditure assignment formula. In particular, there is need to assign less weight to criteria such as ‘land mass’ because of its inherent inequality
and redistributive distortions. Similarly, merging criteria such as ‘equality of state’ and ‘population’ into one should be given serious consideration, since they are essentially duplicative.

Going forward, there is a need to adopt a strategy which will make the sub national governments less dependent on the central government. A redistributive fiscal policy anchored on matching grants will improve the internal revenue generating efforts and engender health competition amongst the sub-national governments. Looking inwards for fiscal sustainability will restore social contract and improve service delivery in the sub-national governments. There is a need for a new thinking in fiscal federalism, if Nigeria is to meet the Millennium Sustainable Development Goals. This new thinking according to Odoko and Nnanna (2006) would provide a solution for the problem of fiscal indiscipline and poor formulation and implementation of distributive policies at the state and local government levels.

Similarly, there is need for a new fiscal policy to regulate revenue allocation to local government. Because of the role politics has played in the evolution of the present quagmire, care needs to be taken to carry all parts of the nation along in fashioning out a new position. It is important that tension regarding the country's fiscal federalism be settled through meaningful dialogue and compromise rather than generate a crisis that threatens the survival of the country.

As part of the decentralization process and simultaneously the transfer of competence, central governments must ensure effective financial resources transfer and support local capacity building for governance and management. However problems reside when attempting to accord competence and resource transfers. Government subsidies are occasional and uncertain. Additionally, local running costs of municipalities are completely their responsibility. This weak/absent resource base represents a major obstacle for local development.

VII. Conclusion

The paper has shown that Nigerian local governments are clearly not financially viable. Local governments in many states of the federation generate less than five percent of their total revenue internally. There is an urgent need to give attention to the issue of fiscal imbalance among the three levels of government and an urgent review of the revenue sharing formula in Nigeria. Local government is the most popular among the three tier structure and should be given the financial strength to operate and succeed in Nigeria.

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