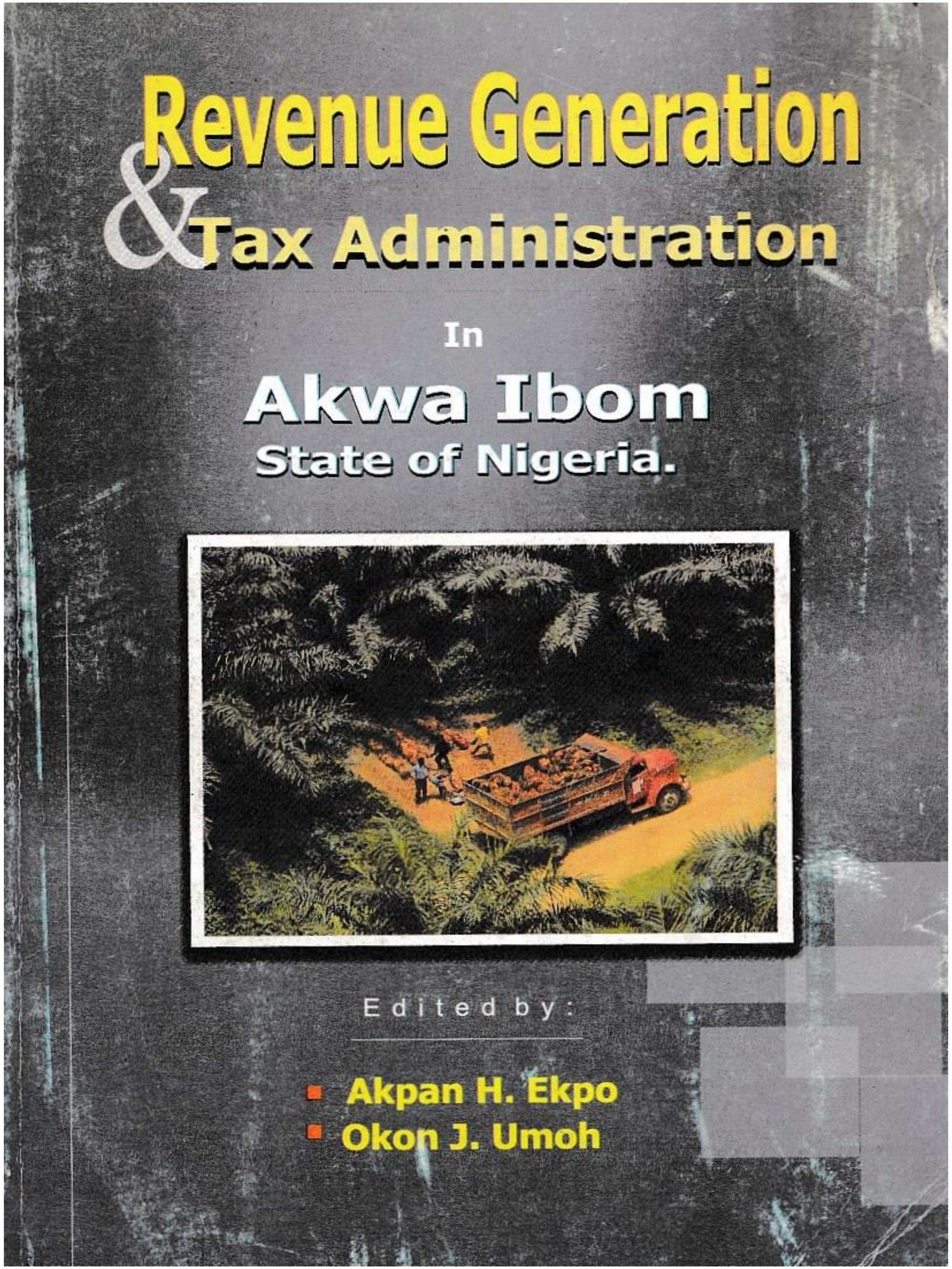

Chapter Five

LOCAL GOVERNMENTS AUTONOMY IN THE NIGERIAN FEDERAL STRUCTURE: IMPLICATION FOR REVENUE MOBILIZATION AND ALLOCATION

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INTRODUCTION

Nigeria is a federation and her fiscal federalism is anchored on multidimensional facets. These include economic, political, constitutional, social as well as cultural developments. A federation is a nation in which two or more tiers of government exist with varying degrees of autonomy and also posses certain administrative and legal properties in common (Ayoade, 1988). The national constitutes the legal basis of federalism and it spell out the functions and responsibilities of the various units of government and the means for performing such functions. The Nigerian federation has undergone remarkable changes over time. From a central government and three regional governments (North, East and West) in 1954, the Nigerian federation is currently made up of central government, (Federal Government), thirty-six states and a federal capital territory (FCT), and about seven hundred and seventy four (774) local government areas as indicated in the table 1.

Table 1: Evolution of Nigeria's Federal Structure, 1914 – 1996

Date	Northern Nigeria	Southern Nigeria	Total	Enabling Laws
1914	1 Protectorate	1 Protectorate	2	
1933-1939	1 Group of Province	2 Group of provinces		Native Authority
		(East and West)	3	Ordinance
1946	1 Region (Northern Region)	2 Regions (East and West)	23	Notice No. 43 of 1933
	12 Provinces	11 Provinces	83	Notice No. 1725 of 1938
	39 Divisions	44 Divisions		
1963	1 Region (Northern Region)	3 Regions (East, West		
		and Mid-West)	4	The Mid-West Region
	14 Provinces	21 Provinces	35	Transitional Provisional
	41 Divisions	55 Divisions	96	Act No. 19, 1963
1967	6 States	6 States	12	States (Creation and
	41 Divisions	55 Divisions	96	Transitional Provisional)
				Degree 14, 1967
1976	10 States	9 States	19	States (Creation and
	152 Local Governments	148 Local Governments	300	Transitional Provisional)
				Degree 14, 1967
1987-1990	11 States	10 States	21	States (Creation and
	240 Local Governments	208 Local Governments	448	Transitional Provisional)
				Degree 1987 & 1989

1991	17 States (including FCT) 320 Local Governments	14 States 273 Local Governments	31 595	States (Creation and Transitional Provisional) Degree 37, 1991
1996-1999	20 States (including FCT) 419 Local Governments	17 States (including 355 Local Governments	37 774	States (Creation and Transitional Provisional) Degree 39, 1996 & 1999 Constitution.

Note: Provinces created between 1933 and 1963 now have the status of while divisions created in the same period now have the status of local governments.

Sources: Tell Magazine, March 29, 1999, pp. 50 and 1999 Federal Constitution p. 125-129.

An important characteristic of a federal system of government is fiscal federalism. This refers to disposition of tax powers, retention of revenue and the method of revenue sharing in accordance with the constitutional responsibilities of all the levels of government (Osakwe, 1999). Fiscal federalism consists of three elements namely the assignment of responsibilities and functions to the different tiers of governments, the assignment of tax powers as well as the allocation of the centrally collected revenue to the various tiers of government. The first element which is a constitutional issue is represented in table 2. The assignment of tax powers is often based on the administrative efficiency or fiscal independence criterion. Mbanefo (1993) maintains that the efficiency criterion demands that a tax is assigned to that level of government that will administer it effectively at minimum cost while fiscal independence requires that each level of government should, as far as possible, raise adequate resources from the revenue sources assigned to it to meet its needs and responsibilities. In Nigeria, the efficiency criterion is always favoured and this has resulted in a situation whereby the jurisdiction and right to revenue of important taxes have been rested in the federal government as shown in table 3.

Table 2: Allocation of Responsibilities in Nigeria

Responsible Level of government	Expenditure Category
Federal Only	Defense, military (Army, Navy, Air force), Foreign Affairs, International Trade including export marketing, Currency, Banking, Borrowing, Exchange control, Use of water resources, Shipping, Federal Trunk Roads, Elections, Aviation, Railways, Postal Service, Police and Other Security Services, Regulation of Labour, Inter-state commerce, Telecommunications, Immigration, Mines and Minerals, Nuclear, Energy, Citizenship and Naturalization rights, Social Security, Insurance, National Statistical system (census, birth, death etc.), Guidelines and basis for minimum education, Business Registration, Meteorology, National Parks, Price Control.
Federal-State (Shared)	Health, Social Welfare, Education (Post Primary/Technology), Culture, Antiquities, Monuments, Archives, Statistics, Stamp Duties, Collection of taxes, Commerce, Industry, Electricity (Generation, Transmission, Distribution), Research Surveys.
State Only	Residual power i.e. any subject not assigned to federal or local government level by the Constitution.
Local Government	Economic Planning and Development, Health Services, Land use, Control and Regulation of Advertisements, Pets, Small businesses, Markets, Public conveniences, Social Welfare, Sewage and Refuse Disposal, Registration of Births, Deaths, Marriages, Primary, Adult and Vocational Education, Development of Agriculture and Natural Resources.

Source: 1999 Nigerian Constitution.

Table 3: Nigeria's Major Tax Jurisdictions and Right to Revenue (1999)

Types of Tax	Jurisdiction: Law	Jurisdiction: Administration and Collection	Right to Revenue
1. Import duties	Federal	Federal	Federation account
2. Excise duties	Federal	Federal	Federation account
3. Export duties	Federal	Federal	Federation account
4. Mining rents and royalties	Federal	Federal	Federation account
5. Petroleum profit tax	Federal	Federal	Federation account
6. Companies income tax	Federal	Federal	Federation account
7. Capital gains tax	Federal	Federal/States	States
8. Personal income tax (other than those listed in 9)	Federal	States	States
9. Personal income tax: armed forces, external affairs officers, non-residents, and residents of the Federal Capital Territory and Nigerian Police Force.	Federal	Federal	Federal
10 Licenses fees on television and wireless radio.	Federal	Local	Local
11. Stamp duties	Federal	Federal/States	States
12. Capital transfer tax (CTT)	Federal	States	States
13. Value added tax	Federal	Federal/States	Federal/States/ Local
14. Pools betting and other betting taxes	States	States	States
15. Motor vehicle and driver's licence	States	States	States
16. Entertainment tax	States	States	States
17. Land registration and survey fees	States	States	States/Local
18. Property taxes and rating	States	Local	Local
19. Market and trading licence and fees	States	Local	Local

Note: The peculiar status of the Federal Capital Territory has not been taken into consideration in this table.

Source: Anyanwu, 1999.

According to Ekpo (1994), fiscal operations between the different tiers of government has the potential of affecting the overall macroeconomic management of an economy. Ekpo and Ndebbio (1978:1) maintain that:

Fiscal operations at the local government level become significant if macroeconomic stability is necessary in the wider economy. If fiscal imbalance appears rampant at the local level, it could pose problems for macroeconomic management. The scenario is even complex when local government depend on transfers from the centre.

Also commenting on the issue of efficiency Akpakpan (1999) maintains that regional (State) and local governments have greater incentives to find out local preferences and provide them more efficiently than the central government.

Following this introductory section, section 2 which deals with theoretical issues. Section 3 discusses the implication of local governments' autonomy for revenue mobilization and allocation. Section 4 deals with strategies for the enforcement of local government autonomy in the Nigerian federation. Section 5 concludes the paper.

2. THEORETICAL ISSUES

2.1 FEDERALISM

Federalism is a system of government under which each region of a nation would exercise n measure of internal autonomy. It is, however, possible to either have a federal system with a strong central government or a federal system with a weak central government (Ukpong, 1984). Be that as it may, Fafunwa (1998) maintains that weak or not, the nature of federal system is that each state should have considerable autonomy. Moreover Smith (1968) defines federalism to "... constitute a variable response to opposed demands for the dispersal and concentration of power. More precisely, federalism constitutes a variable response to opposed demands for the centralization and decentralization of power on a specifically territorial basis".

The federalist principles therefore represent a response to the challenge of pluralism, which explicitly or implicitly recognizes the rights of component ethnic nationalities or regions or states of a federation to self-determination. (Bassey, 2000).

Federalism seems to provide solace to nations and/or societies, which are structurally pluralistic and therefore susceptible to conflicts, disputes and inherent instability. Such pluralism may be cultural, social or structural and provide the basis for the need for structural decentralization. Federalism is a principle of the organization and practice whose ultimate test involves how the federal system is operated. It is characterised by governmental tiers with separate but coordinate legal status, a self-contained administrative machinery, fiscal independence and a balanced delimitation of activities without conflict (Wheare, 1943). An important feature in the federalism matrix is structural decentralization and constitutionally guaranteed autonomy of component states of the federation. According to Schmitt (1996), "Federalism involves the linkage of individuals, groups and polities in lasting but limited unions, in such a way as to provide for the energetic pursuit of common goals while maintaining the respective integrities of all parties . . . Federalism means the juxtaposition of two power; there is on the one hand a central state (called federal state) and there are on the other hand member states (called federal state)".

An important feature which qualifies a nation as a federation is the participation of constituent states or regions to the decision-making process of the central state. Other features include the allocation of power (mode of power sharing and amount of shared powers), the guarantee of the existence of the member-states and their autonomy of internal organization.

Federalism is a political paradigm; it may be seen as denoting two legally constituted entities, constitutionally and legally independence of, yet coordinate with each other with separate rights to protect, conflicting interest to be adjudicated, and guided by a written constitution on behalf of the Federating states, regions or communities. (Oyobvaire, 1985).

Unfortunately, the existing federations do not meet the criteria to qualify as federal systems. Most of them may be classified

as quasi-federal. Some of the institution attributes of Federalism are even present in some unitary systems. Particularly, Nigeria's institutional manifestations as a federation are far reality.

The federal structure of government, which Nigeria operates in principle, refers to the existence of more than one tier of government. In the case of Nigeria, we operate three tiers of government namely the central, state and local government systems. The need for such multitier government is not far fetched. Theoretically it is generally accepted that certain economic functions are better performed by the central government while others are better performed by the other subnational governments like the state and local governments. The three major functions which government exists to perform include allocation, distribution and stabilization. The advantages which accrue the decentralization of governmental functions may be better understood from the perspective of the theories of public goods and public choice. For instance, the allocation function of the government is based on the fact that responsibilities between the private and public sector are not in conflict while the publicly provided goods are well known. Generally, governments exist to correct certain failures of the free market to allocate resources efficiently and ensure equitable distribution of income as well as economic stability and growth. The publicly provided goods in an economy will therefore depend upon the extend to which the free market has failed in their provision. Musgrave (1989) maintain that the free market seem to fail totally in the case of allocation of pure public goods and partially in the case of impure public goods and private goods. This is bases upon which a discussion of federalism is often rooted in the allocation function and illustrated with the pure public goods. As we have earlier stated, there are political, economic and socio-cultural justifications for multilevel government.

Politically, federalism arises as a result of dynamic application of constitutional development as a nation emerges over time. Federalism may, therefore, be seen as a

"process of unifying power within a cluster of states and decentralizing power within the unified states, given the philosophy of unity in a spectrum beyond the extremes. The extremes refer to, on one hand, a cluster of states without any systematic arrangements for unified action and on the other, the fully unified state in which sovereignty is indivisible" (Agiobenebo, 1999).

Two types of federalism are broadly discernible – the dual federalism and the cooperative federalism. Dual federalism is a system where two separate independent tiers of government are constitutionally create with their responsibilities clearly defined. On the other hand cooperative federalism involves cooperation among various levels of government (e.g. central, states and local governments). This system involves partnership between the different levels of government in the provision of service to the nation. In this case the various levels of governments are interrelated parts of a single systems, characterised by cooperation and mutual execution of shared functions rather than by conflict and competition (Tella, 1999; Cummings and Wise, 1974).

The economic justification for federalism is the existence of public goods and services. And the corresponding need to solve the problem of resource allocation and distribution. A major economic issue in federalism is that of ensuring efficiency in the resource allocation and distribution process. The resource distribution process is said to be efficient if no section of the society is worse off while making another better off. In which case, at the end of the distribution process, some (if not all) parts of the federation must be better off while no part is worse off. The problem of efficiency is beset by the difficulty in measurement in the process of evaluation of redistribution of resources. This is due to the fact that redistribution entails balancing loss of value with gains accruing to all sections of the federating units from fiscal operations (Musgrave and Musgrave 1982; Akpan and Umobong, 1999).

2.2 FISCAL FEDERALISM

In a federal type of government, fiscal federalism involves fiscal relationships among the different levels of government. The fiscal relationships revolve around expenditure and revenue matters. Fiscal federalism connotes matters of revenue and expenditure decentralization. It is often assumed that decentralization is healthy for the economy. Recent studies have confirmed that fiscal decentralization can stimulate economic

growth and development. Within the context of fiscal federalism, revenue sharing among the various tiers of government remains highly sensitive and controversial. It is therefore important to subject these issues to continual discussions because of the importance of fiscal balance for the wider economy. Large fiscal imbalance at the lower levels of government will create macroeconomic instability for the wider economy. Fiscal decentralization involves the delegation of decision-making to lower levels of government by the central government.

Fiscal federalism therefore refers to the principles by which the fiscal exigencies and intergovernmental fiscal relations arising from the political decentralization of the public sector functions and responsibilities are resolved (Agiobenedo, 1999). In other words fiscal federalism refers to the allocation of resources among the various levels of government in a federation for the efficiency discharge of their constitutionally assigned responsibilities and functions. The intergovernmental fiscal relations are in two perspectives – the vertical and the horizontal arrangements. The allocation of resources may however be undertaken using one or both arrangements. The vertical fiscal arrangement connote the distribution of the means of mobilization, taxes etc while the horizontal fiscal arrangement involves the transfer of resources from one tier of government to another (usually from higher to lower tiers of government) from common sources.

In a federal arrangement, intergovernmental transfers or allocations of revenue may be classified as either non-matching or selective matching. Non-matching grants may be selective or general (conditional or non-conditional). If the federal government, for instance, makes available a specified amount of money to the state or local government for a specific purpose and expects the latter to match the funds then such transfer of funds is regarded as a selective non-matching allocation. Such allocation may be intended for the subsidisation of expenditures to which the higher level of government assigns a high priority (Shah, 1991). In the case of non-matching unconditional grants, no constraints are imposed on how to spend the allocated funds by the recipient level of government. Selective matching grants require that the grant be spend for specific purpose and the recipient is expected to undertake some degree of matching of the funds. This is called cost-sharing programme.

Boadway (1990) and Shah (1983) justify the transfer of revenue from the federal to lower levels of government on political, economic and social grounds. The economic justification for revenue allocation include efficiency, equity and stabilization objectives. The application of efficiency and equity principles suggest four main economic reasons for revenue allocation. First, intergovernmental transfer can be used to increase the efficiency with which public goods and services are provided. Secondly, it could be used to close fiscal gap when there exists a gulf between means and the expenditure needs of the lower tiers of government (state and local government). Furthermore, it could be used to achieve minimum standard of services across an economy especially in s federal structure. Finally transfers of revenue could be use to redress differential net fiscal benefits across states and local governments. Such differentials occur due to differentials in natural resources endowment among states and local governments. Some are ideally better endowed than others with natural resources and thus have better access to an enlarged revenue base.

2.3 FISCALAUTONOMY

Fiscal autonomy at the local and state government levels pertains to the degree to which these tiers of government are able to decide and act on issues within their defined jurisdiction, irrespective of whether or not higher levels of government are disposed towards such decisions and action. For instance, fiscal autonomy over revenues requires that these lower tiers of government be free to fix rates and vary the tax base allocated them. In practice, states and local governments are allowed limited autonomy due to the desire of the central government to maintain uniform tax rates across the country (Alade, 1999).

According to Roberts (1999), the essential elements of local autonomy are as follows:

(i) Autonomy is a matter of degree; therefore, it is relative and not absolute, (ii) autonomy has to be effectively backed

up with human, financial and material resources to make it exercisable, (iii) autonomy must be intra vires, that is must be exercised within the scope of the enabling regulations which define the intergovernmental distribution of responsibilities in a polity and (iv) autonomy is empirically observable if the tier of government concerned can decide and/or act on issues, without falling foul of higher levels of government. The extent of autonomy may be considered to depend on the extent to which a given tier of government is conferred with power within the prevailing system of decentralization as well as the amount of control that higher level(s) of government exercise of it (Okunade, 1997).

Roberts (1997) maintains that the traditional theory of local government autonomy stems from a liberal democratic analysis of the state and politics. This theory accepts pluralism, but is critical of centralization. The case for local autonomy is strengthened by the fact that autonomy at the local level provides both economies of action as well as a defence against the creation of a centralized and monolithic system of government through the diffusion power in society. Furthermore the observed weakness in the centralized system such as remote decision-making, inaccessible government, limited responsiveness and weakening of local accountability also lend credence to the need for local government autonomy.

Akpan (1999) has provided adequate evidence to buttress the need for greater state government autonomy in Nigeria. Fiscal laws in Nigeria have greatly given more tax powers to the federal government than the two lower tiers of government. This has led to the decrease in internally generated revenue by the lower levels of government in a way that makes their dependence on higher government inevitable. Using the ration of States' statutory allocation to States' total current revenue to measure the States' dependence on the federal government, Akpan (1999) concludes that between 1980 and 1996 the states depend on the federal government for up to 71.1 percent average. Furthermore, using the states internal revenue generation ratio to measure self-reliance capacity he finds that this ratio stood at an average of 26.8 percent for the 1980s and 18.1 percent between 1990 and 1996. These demonstrate the increased dependence of state governments on the federal government for their revenues and further makes the need for state governments autonomy inevitable. Moreover the internal revenue capacity of all the states compared to federal tax performance averaged 7.2 percent during the period under review. Two inferences could be drawn from the above evidence. First, the tax powers are concentrated in the federal government to the detriment of the states. Secondly, the internal capacity to general revenue seems to be overlooked while states are created.

3.0 THE IMPLICATIONS OF LOCAL AND STATE GOVERNMENTS' AUTONOMY FOR REVENUE MOBILIZATION AND ALLOCATION

The degree of local government autonomy in Nigeria is bound to have implications for their ability to mobilize revenue as well as the allocation of revenue among the various tiers of government. This in turn would have implications for the development of the local governments ceteris paribus. Whether these implications are positive or negative would depend on the existing nature and structure of local government finances.

Constitutionally the local governments mobilize their funds both internally and externally. For local governments, the external sources of revenue include transfers from federal and state government in the form of grants, statutory allocations, their share of the value-added tax (VAT) as well as loans. Their internal sources of revenue include licence fee on television and wireless radio, property taxes and rating, market trading licences and fees, motor park duties, and advertisement fees. Despite the numerosity of these internal source of revenue the statutory allocations from the state and federal governments. Currently the local governments are entitled to 20 percent of revenue in the federation account as well as 10 percent of the states' internally generated revenue (Roberts, 1999).

Furthermore the local governments are entitled to a share in the value-added tax (VAT) which was introduced in 1994. The

value-added tax has been of increasing important for local government.

Ekpo and Ndebbio (1998) proffer the following reasons for the variations in the pattern of state allocations to the local governments:

(i) some states refuse to fulfil their mandate, with the excuse that they executed various projects at the local government level.

(ii) states insist that the decline in revenue from the federation account limited their ability to honor their statutory obligations to local governments; and

(iii) some states regard their refusal to fulfil their mandate as punitive measures on local governments that they deem to have performed unsatisfactorily with previous periods allocations.

It is now clear that the fiscal profiles of local governments have implications on the macroeconomic management of the wider economy. For instance budget deficits at the local government levels may create or aggravate fiscal problems economy wide. It is unfortunate that despite the variety of internal revenue sources for the local governments. These sources have not yielded much due to neglect of some of the sources, difficulty in administration of taxes, impropriety on the part of collectors, political and cultural bottlenecks, as well as valuable problems. The result is tax avoidance and tax evasion which are inimical to revenue growth.

The foregone discussions indicate that reforms are overdue while enhanced fiscal autonomy to local governments in the Nigerian federal structure will certainly have positive implications for revenue mobilization and allocation at these tiers of government. It is obvious that as allocation to local governments increase, more money will become available to these levels of government irrespective of the real worth of such funds relative to its normal value. Roberts (1999), however, maintains that the status of local governments autonomy in Nigeria do have some negative implications for revenue mobilization. While local governments have had more money at their disposal over the years, a critical look at the structure of their revenue reveals that it is mainly derived from external sources. Moreover, the nature of these external sources of revenue and their mode of disbursement both erode the much desired autonomy and also institute dependency syndrome in local government revenue mobilization. As this tier of government increasingly depend upon statutory allocations from the federal government, their ability to explore internal sources of revenue becomes weaker and weaker.

Furthermore, external loans are constrained by intergovernmental controls which limit financial autonomy through (i) prescription of source, extent and purpose of borrowing; (ii) official sanctions restricting loans to a minority of local government projects; (iii) strictures on local governments to avoid deficit budgeting, thereby making borrowing irrelevant, and (iv) absence of appropriate lending institutions outside the capital market (Roberts, 1999).

The prevailing nature of local government autonomy in Nigeria imply that this level of government is totally at the mercy of the federal government in the mobilization and allocation of revenue from it as the main source. Another constraint on local government autonomy and their ability to optimize revenue mobilization is the issue of state control of local government's budgets, which must be approved by the state governments. These budgets are still subjected to post-budget controls after approval and this further constitutes constraint on local governments revenue mobilization and allocation capacity (Roberts, 1998).

If local governments were to be given the form of unhampered autonomy that they really deserve in a federal structure, then each level of government would be allowed the freedom to mobilize their necessary revenue internally. Statutory allocations from the centre would only supplement what these lower levels of governments have generated by themselves. The implication of such self-determination in revenue generation would be the enhancement of their economic fortunes and their ability to deliver public goods and services.

4. STRATEGIES FOR THE ENFORCEMENT OF LOCAL GOVERNMENT AUTONOMY IN THE NIGERIAN FEDERATION

In the light of all the discussions earlier made we proffer the following strategies for the enforcement of local government autonomy in Nigeria.

(i) Given that local governments are crucial for national development, their revenue and expenditure decentralization must accompany each other. There is need to restructure Nigeria's fiscal federalism so that the assigning of tax power, tax bases, and borrowing would be left to the appropriate tier of government. A situation where the central government is far from the people and yet collects virtually all the revenue is unhealthy. Certain lucrative taxes should be left to local authorities.

(ii) In line with the views of Emenuga (1993) and Iniodu (1999) we maintain that a safe way of avoiding the arbitrariness inherent in our revenue allocation system and of entrenching a stable vertical allocation formula is to adopt a "function-based approach whereby each tier of government receives resources commensurate with its relative constitutional functions".

(iii) There is an urgent need to re-establish a true federal system in Nigeria with the fiscal responsibilities to be performed by each tier of government and the financial resources for performing these functions clearly stated in the constitution. This must be followed by a change in the revenue allocation formula in favour of the state and local governments, while emphasis should be placed on the principles of derivation as a criterion for revenue allocation.

(iv) The local governments must be committed to their internal revenue generation responsibility to reduce the extent to which they depend on the federal government for statutory allocations. To enhance such internal revenue generation capacity each state must be constitutionally empowered to determine the rates, allowances and exception from personal income tax (PIT) to enhance fiscal independence.

(v) Since there is no law restraining domestic borrowing, local governments must exercise their autonomy by considering the issuance of debt instruments to finance development projects.

(vi) To enhance the effectiveness of local governments as agents of development, the federal government should increase their share of total public sector expenditure substantially through increased allocation from the federation account.

(vii) The diversification of the revenue base of all tiers of government should now be translated into reality. Efforts should be made to improve the non-oil revenue base so that negative trend in the oil sector may not adversely affect the administration of our federal structure, especially the state and local governments. This requires the expansion of the non-oil tax base so as to raise the contribution of non-oil taxes to total federal revenue.

(viii) Finally the Nigerian federation is in dire need of restructuring so that more fiscal powers are devolved to states and local governments. The successful implementation of or current efforts at privatisation and commercialization of publicly owned enterprises should pave the way for less fiscal powers on the federal government.

5.0 CONCLUSION

This chapter reveals that whereas Nigeria is supposed to operate a federal structure of government, the central authorities have arrogated to themselves greater fiscal powers and benefits at the detriment of the state and local governments for a long time. We therefore conclude that there is an urgent need for a restructuring of the Nigerian federation. Such restructuring must carry with it revenue and expenditure decentralization befitting of true federalism. In which case the assignment of tax powers, tax bases and borrowing would be left to the appropriate level of government. Fiscal federalism would then favour the state and local governments as they exercise the fiscal statutorily due to them.

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