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The Impact of Existing Inter-Governmental Financial Relations on Effective Service Delivery at the Grassroots in Nigeria

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Abstract
In Nigeria, the fiscal inter-relationship between the three-tiers of government has been contentious over the years due to lack of an acceptable formula. It generates tension and bad blood among the three tiers of government. This paper has discussed the impact of existing inter-governmental financial relationship on service delivery at the local government level in Nigeria. Nigeria's fiscal federalism involves the allocation of expenditure and tax-raising powers among the federal, state and local governments. The 1999 constitution has outlined the revenue profile of each tier of government; the revenue sources of the local government only generate a paltry amount of revenue that is inconsequential. The structure of the revenue profile of the local governments in Nigeria clearly indicates that they heavily depend on statutory allocation for their survival since the internal revenue sources are insignificant. There is a clear mismatch between responsibilities and revenue powers at the lower tier of government and this has greatly impaired the ability of local governments to deliver service at the grass root. This definitely is not a healthy situation given fact that about seventy per cent of the Nigerian population live in rural areas and the only impact of government on their lives will be service delivery by the local governments which presently is lacking in most local governments in Nigeria major as a result of the nature of the inter-governmental financial relationship and corruption. The paper recommends that the problems created by inter-governmental financial relationship can be resolved in a number of ways such as: re-alignment of responsibilities and revenue sources; a review of the constitution in-order to grant local governments' financial autonomy; reduction in wasteful expenditure and corruption; increase in internally generated revenue.
Keywords: Inter-Governmental Financial Relations, Fiscal Federalism, Revenue Sharing, Revenue Allocation Formula, Service Delivery, Local Government

Introduction

Inter-governmental relations are an inevitable phenomenon in any Federal system or non-federating systems. As long as the Nigerian Federation continues to survive, resources sharing adjustments will continue to feature as an important fiscal arrangement in the

Federation; this will continue to play a vital role in the operation and structural interplay of the Federation.

Inter-governmental financial relations refers to the relationship between the different tiers of government in terms of fund raising powers and control over public spending; in Nigeria, the federating tiers of government are the federal, state and local government. Intergovernmental financial relations thus deal with the core issues of revenue jurisdiction and fiscal federalism.

Nigeria's model of fiscal federalism represents a fundamental legal and institutional framework for policymaking in the country. As in other federations, it defines the core rules for resource allocation, distribution of responsibilities for service delivery, and mechanisms for interaction between different tiers of government.

Nigeria's fiscal federalism arrangements are currently attracting increasing attention from both policymakers and analysts. This is a reflection of the fact that longer term perspectives of economic policy reform in the country are critically dependent upon improvements in the organization of inter-governmental arrangements. Such arrangement shaves direct implications for achieving national growth and poverty reduction targets. Simply put, there is a major need to strengthen the incentives of government agencies at all levels of authority to improve cooperation in designing of their policies and delivery of services. At the same time, capacity will have to be built to support such future inter-governmental cooperation.

The need for stronger cooperation and other reforms in federalism is driven by the fact the Nigerian constitution, stipulates that main public sector responsibilities are split across various government levels. Thus, no sole government could deliver radical improvements in service delivery on its own, which means that coordination and cooperation are pre-requisites. However, the existing mechanisms and institutions for inter-governmental policy coordination are weak and need strengthening (Freinkman). Closely related to weak policy coordination is the issue of acrimony between the tiers of government with regards to sharing resources among the three tiers of government.

In Nigeria, the issue of sharing resources among the three levels of government has remained controversial due to lack of an acceptable formula. It generates tension and bad blood among the three tiers of government. This has resulted in setting up of different commissions to prescribe the formula to be used. Also there exists a conflict between the Federal, State and Local government over acceptable formula for sharing revenue. For instance, the conflict is usually whether the principle of derivation, need, natural interest or landmass should be used as a basis for the purpose. Even when these principles may be generally accepted as the main basis for working out revenue allocation formula, conflict might arise following as to which of the principles takes precedence over others as the main criteria for sharing the revenue.

Service delivery refers to the provision of social or public goods that will promote socio-economic well-being of the citizens. Public services offered by government are numerous and may include the provision of public utilities, security, economic development projects, the enforcement the law and so on. The delivery of public goods and services at the local government level or the grass root is aimed at moving the standard of living of the populace to the next level.

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Inter-governmental Financial Relations

In an attempt to prevent an acrimonious relationship between the federating tiers in a federal system of government, there should be a match between constitutional responsibilities assigned and the resources allocated for the discharge of the assigned functions. Government constitutional assignments should be backed up by a complement of taxing powers and revenue rights.

Fiscal imbalance between the federal government and the state governments on one hand and the state government and the local government on the other as well as the need for developments by the various states or regions can be a source of acrimony and bad blood between the federating units, this disharmony can however be ameliorated through the application of the principles of Administrative efficiency, Economies of scale and Desired social effects in the allocation of scare financial resources (Akpa, 2008).

Administrative Efficiency: Due to the peculiar nature of certain revenue sources, a particular tier of government may be in a better position to harness such a revenue source more efficiently, the fiscal powers over such revenue source should be given to the tier of government that can handle it the more efficiently.

Economies of Scale: The tier of government that can most economically harness a revenue source with minimum wastage should be allowed fiscal powers over the revenue source.

Desired Social Effect: The extent of the tax effect expected should act as a guide in arriving at the decision as to which tier of government should be allowed fiscal powers over a revenue source. The intended social effect may be national, regional or local in scope, based on this desired effect, fiscal powers may granted to the federal ,states, and local governments respectively.

Revenue Sharing and Related Politics

Nigeria's fiscal Federalism is anchored on economic, political, constitutional, and local and cultural developments. The country's Federal structure presently consists of thirty-six states, a Federal Capital Territory and seven hundred and seventy-four Local Governments. Consequently, the structure is a three tier or level of Government; the centre (Federal), States and Locals Governments, within a presidential system of government (Elaigwu, 2007:93).

The Fiscal Inter-relationship between the three-tiers of government has been contentions over the years. In recent times, the revenue allocation matter has become heated as a result of disagreements over the derivation principle. The crisis in the Niger Delta area of the country hinges on the revenue-sharing issue. Hence, this poses a challenge for the leadership of the Nigerian State and her policy-makers as they tackle the fiscal relationship among the three level of government.

Nigeria operates a federal structure of government that guarantees the existence of the Federating units. The functions of the Federal Government are contained in the exclusive list that of States on the concurrent list where a conflict exists, the exclusive functions of the federal government dominates. The constitution spells out the assignment of functions and areas of fiscal jurisdiction among the various units of the Federal system (Nwokedi, 2002).

The federating units often give up sovereignty in certain aspects of their operations in order to achieve the benefits of natural unity in some areas of government activities while retaining some measure of autonomy in other areas. Inter-governmental fiscal relations can be situated within the concept of federalism. Therefore, federalism connotes a system of government where revenue and expenditure functions are divided among the different levels

of government. This is done to enhance the delivery of services at all levels of government. It is generally agreed that revenue generation and spending responsibilities, inter-governmental transfer and the administrative aspects of fiscal decentralization remain the real issues in inter-governmental fiscal relations or fiscal federalism. Therefore, Nigeria's fiscal federalism involves the allocation of expenditure and tax-raising powers among the federal, state and local governments. The argument is that fiscal federalism/decentralization is good for any economy since it enhances better service delivery and stimulates growth and development (Nwokedi, 2002).

It is clear that fiscal arrangements are the consequence of a federal structure. The types of fiscal arrangements ought to affect the nature of the federal structure. The main problem centres on how to put in place, a federal structure that would be conducive to national and equitable allocation of the country's resources among the different sub-national governments in order to reduce inter-governmental and inter-group tensions. In addition, other problems in Nigeria's fiscal arrangement include power sharing and the apparent imbalance between the expenditure responsibilities assigned to the different levels of government and the tax power available to them. The allocation of functions among federating units is more of a political than an economic exercise and there may be no stated principles underlying such allocations in the Nigerian Federation (Okoli & Onah, 2002:100).

The financial aspect of the affairs of the various levels of government could be said to be the cord that hold them together. This is why Okoli and Onah (2002:43) added that financial transactions are an important area where the various levels of government must come to agreement if development is to be enhanced. Revenue allocation as aspect of finance, dominated inter-governmental relations in Nigeria since 1954 and there about.

Ugwu (1998:45) believes that the argument over the fiscal policy in Nigeria has been hinged on the thorny issues of revenue allocations and the criteria upon which distribution of revenue should be based. There have been conflicts and disagreements over the most acceptable formula or principle which should determine allocation and the relative weight to be attached to each criterion. The disagreement of the subsequent revenue allocation formulae hindered inter-governmental relations in Nigeria. For example, the first commission set for this assignment was the Philipson Commission which recommended derivation and even development in 1946 as the most feasible platform for the distribution of national resources, but the country did not find it comfortable and it was opposed by the different regions (Abonyi 2005:64).

In 1951, the Hick Philipson Commission recommended independent revenue derivation and need. But it became difficult to determine what constituted need (Abonyi, 2005:64).

Consequent upon the un-workability of the formula, the Hicks Commission was set in 1953 and it recommended derivation and fiscal autonomy. Again, the meaning of fiscal autonomy remained illusive in relation to the fundamentals of Colonial Economic Policy (Okoli and Onah, 2002:160).

In 1958, the Riesman's Commission recommended continuity of existing levels of service, basic responsibility of each regional government, population, balanced development and derivation. Some of these criteria were found in appropriate as there were conspicuous disparity among them as they existed in the various regions. Such were existing services, responsibility of each regional government, population and the unpredictable issues of balanced development (Okoli and Onah, 2002:165).

With the attainment of political independence in 1960, which in turn paved way for a new national constitution, popularly known as independence constitution of 1960. With this

constitution came a new formula for revenue allocation based on derivation, equality of states and needs (Okoli and Onah, 2002:156).

Other revenue allocation formulae according to Okeibe (2000) include the one by Aboyade in 1978 and other by Okigbo in 1980 which identified areas of rivalry between the various tiers of government over resources. The Aboyade Commission proposed the ratio of 60:30:10 percent as a basis for sharing revenue among the Federal, State and Local Government tiers. This was rejected for its high technicality and insufficiency. The Okigbo Commission in trying to remedy the situation came with the following formula: Federal Government 53 percent; State Government 30 percent; Local Government 10 percent; Special Fund 7 percent. Through this recommendation created a considerable debate in the National Assembly, it was accepted with a little modification thus: Federal Government 50 percent; State Government 30 percent; Local Government 13 percent; Special Fund 7 percent.

Okeibe (2000) contend that the issues of derivation were only emphasized in the period of agricultural export boom, by 1978 when agricultural exports had all but disappeared; the derivation principle was accorded insufficient importance. The derivation principle was slowly phased out by increasing emphasis on the needs principle.

The population criterion was also introduced later, the difficulties surrounding the reliability of census figures made its use as a basis for revenue allocation difficult. In the politics of revenue sharing, various states in anticipation of potential benefits from presenting a high population figures, inflated their population sizes (Okeibe, 2000).

In 1982, the allocation of the government revenue changed form thus: Federal Government 55 percent; State Government 35 percent; Local Government 10 percent. The formula had to be changed, once again in 1985 by the regime of General Ibrahim Babangida to take the form of: Federal Government 55 percent; State Government 30 percent; Local Government 10 percent; Mineral producing areas 5%. The allocation for the mineral producing areas was for the development of mineral producing states and for the amelioration of ecological problems. General Abacha's regime later had to change the formula in favour of the State and Local Governments and at the expenses of the Federal Government. Hence, the formula was then pruned to: 45 percent for the Federal Government; 35 percent for the State Government; 20 percent for the Local Government.

From the foregoing, it has been clear that what keeps the government together borders on the allocation of the common fund. The Federal Government has been seen to be taking the lion's share of the revenue allocation among the other levels of government. But be that as it may be, the amount allocated to each level is supposed to be relative to the functions to be performed by each (Abonyi 2005:68).

Laxmikanth, (2006) argues that the best way of ensuring inter-governmental financial relations in a Federal State is that if government authorities in a Federation are to really co-ordinate with one another in actual practice as well as in law, it is essential that there should be available to each of them under its own unfettered controlled, financial resources sufficient for the performance of the functions assigned to it under the constitution.

The constitution provides that each state shall maintain a special account to be called 'State Joint Local Government Account' into which shall be paid all allocations to the Local Government of the State from the Federation Account as well as from the government of the state. In reality most states are reluctant in releasing funds due to local government Councils; state governments find all sorts of excuses not to channel funds to local governments. It would be more interesting if the refusal to channel funds in based on lack of satisfactory

performance by local government Councils. Under this scenario, it would be necessary to devise benchmarks for measuring performance. Otherwise, State Governments ought to implement the constitutional requirements of transferring funds from the Federation Account and from State Government to Local Government Councils. It is important to state that most local government has used the non-receipt of funds as the reason for lack of adequate development projects in their jurisdictions. (Elaiwgu, 2007:106).

The National Revenue Mobilization, Allocation and Fiscal Commission (NRMAFC) was established by section 153 of the 1999 constitution as a permanent, independent an autonomous body charged with the periodic review of the Nigeria's revenue sharing as the need arises. The Commission is guided by the principles of equality of states and local government, population, derivation, internally generated revenue effort and social development effort in its work (Akpa, 2008:46).

Akpa (2008:47) has stated that the present revenue allocation formula for vertical sharing among the federating units has the following variables:

	Percentage
Federal Government	x
States	x
Local Government	x
Special fund	x
Total	100%

The special fund is shared as follows:

	Percentage
Niger Delta Development Commission	x
Federal Capital Territory	x
Statutory Stabilization	x
Ecology	x
Derivation	x
Total	(as agreed above)

According to Ekpo (2004) between 1999 and 2004 there have been changes and recommendations made in respect of the vertical allocation formula:

First, revenue allocation of order (President), beginning May 1999: the Federal Government was allocated 56%; States 24%; Local Govt.20%. The Federal allocation of 56% was further divided into 48.5% for the federal government and the balance of 7.5% to be distributed on general ecology and Fed. Capital territory. The NRMAFC disagreed invoking constitutional provision.

Second, January 2004, Ministry of Finance through a letter, allocated to Federal Government 56.8%; States 26.72%; Local Government 20.6%. The NRMAFC rejected this, invoking constitutional provision. A summary of the various changes and recommendations is presented below:

	*1 Revenue allocation of Order 2002 beginning May 1999	*2 Revenue Allocation July Order 2002	*3 Ministry of Finance Allocation Formula January 2004
1. Federal Government	** (i) 56%	**(i)54.68%	** (i) 52.68?%
Federal government	48.5%	48.5%	
General Ecology	2.0%	-	
Fed. Cap. Territory	1.0%	1.0%	
Stabilization Account	1.5%	.725%	
Dev. of Natural Resources	3.0%	3.05%	
Derivation (Ecology)	-	1.46%	
2. State Governments	(ii) 24.0%	(ii) 24.72%	(ii) 26.72%
3 Local Governments	(iii) 20.0%	(iii) 20.60%	20.60%
Total	100%	100%	100%

Source: Ekpo (2004).

The politics of revenue sharing in Nigeria has remained a controversial and contentious issue often resulting in acrimony and disharmony in polity.

Inter-governmental financial relations and service delivery at the grass root

The 1999 constitution has outlined the revenue profile of each tier of government; the major areas of revenue generation in the country which are made up of import duties, export duties, excise duties, mineral rents and royalties, value added tax and so on are all within the jurisdiction of the federal government. While sources such the personal income taxes (PAYE), sales tax, that generate considerable revenue are assigned to the state governments. The layout of local government revenue sources consists of community tax, rents, and licenses such as bicycle, wheel barrow, radio and television licenses, commercial service revenue and statutory allocations from the federation account. The revenue sources of the local government only generate a paltry amount of revenue that is inconsequential.

The structure of the revenue profile of the local governments in Nigeria clearly indicates that they heavily depend on statutory allocation for their survival since the internal revenue sources are insignificant (Akpa2008:52). Furthermore, these statutory allocations are not paid directly to the local governments but rather to states local government joint accounts, leaving the local government at the mercy of the state government. As earlier pointed out some state governments are reluctant in releasing the statutory allocations to the local governments.

There is a clear mismatch between responsibilities and revenue powers at the lower tier of government and this has greatly impaired the ability of local governments to deliver service at the grass root. This definitely is not a healthy situation given fact that about seventy percent of the Nigerian population live in rural areas and the only impact of government on their lives will be service delivery by the local governments which presently is lacking in most local governments in Nigeria major as a result of the nature of the inter-governmental financial relationship and corruption.

Options for Resolving Problems Created by Inter-Governmental Financial Relationship

The problems created by inter-governmental financial relationship identified above can be resolved in a number of ways:

- Re-alignment of responsibilities and revenue sources: It is clear from its revenue profile that the Federal Government is a surplus unit while the local governments are deficit units. There should be a re-assignment of responsibilities from the lower tier of government to higher tier to match revenue or there may a re-assignment of revenue powers to the lower tier of government to match responsibility.

- A review of the constitution in-order to grant local governments' financial autonomy: A review of the constitution that will grant local government financial autonomy from state governments such that allocations from the federation accounts to local government will be paid directly to the local government.
- Reduction in wasteful expenditure and corruption: Reduction in the very high amount of recurrent expenses incurred in maintaining the federal and state government which is closely associated with corruption will make more resources available to local governments for service delivery at the grassroots.
- Increase in internally generated revenue: Through a combination of improvement in efficiency in revenue collection from present existing sources and increase in the rate of existing taxes and fees, local governments can increase their revenue and improve service delivery.

Conclusions

The present inter-governmental financial relationship has impacted negatively on the ability of local governments to deliver service at the grassroots where majority of Nigerian live. There is therefore an urgent need to carry out reforms that will address the situation. If left unaddressed, the issues of fiscal federalism and inter-governmental financial relationship will continue be controversial and this will not be helpful in promoting the welfare of the citizens at the grass root through service delivery.

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