Local Government Finance in Nigeria: Challenges and Prognosis for Action in a Democratic Era (1999-2013)

Agba, Michael Sunday [1]; Stephen Ocheni [2]; Nnamani, Desmond Okechukwu [3]
[1]*Department of Public Administration, University of Calabar, Calabar, Nigeria*
[2]*Ministry of Foreign Affairs, Abuja, Nigeria. Email: stephenocheni@yahoo.com*
[3]*Department of Public Administration and Local Government, University of Nigeria, Nsukka, Nigeria. Email: dungabrazil8yahoo.com. (**Corresponding Author).***
Manuscript ID: RCMSS/JGGSDA/13007

Abstract
Local government finance is one of the aspects of public finance. It deals with the generation of revenue, expenditure and utilization of financial resources in order to bring the impact of government closer to the people at the grassroots. Put differently, finance is essential in enabling local governments transform the lives of the rural dwellers through the provision of social services and rural infrastructures like the construction and maintenance of rural roads, markets, schools, health centers. Despite the fact that the funding of local governments in Nigeria is an important aspect of fiscal federalism and intergovernmental relations, it has suffered setbacks, thus, circumventing development at the grassroots. This ugly trend is usually associated with or provoked by certain underlying factors like overdependence on statutory allocations from the Federation Account, corruption, tax evasion from citizens at the grassroots, creation of non-viable local government councils in terms of the capacity to generate finance internally and effectively utilized it for development purposes, and lack of financial autonomy. Thus, the paper is an attempt at revisiting the sources of local government finance in Nigeria and the factors affecting the financial viability of local government councils within the purview of fiscal federalism as enshrined in the 1999 Constitution of the Federal Republic of Nigeria. Financial viability backed up by effective management; public accountability, fiscal autonomy, staff motivation and servant leadership attitude among politicians are imperatives in building capacity at the grassroots for legitimacy of creation and sustainable development.
***Keywords**: Local Government, Fiscal Allocation, Sources of Revenue, and Social Services*

Introduction
Local governments are the third tier administrative structure created in Nigeria to decentralize governance, bring government closer to the people at the grassroots and render social services (Agba, Ogwu and Chukwurah, 2013) pivotal in engendering national development. They are purposefully located and responsible for the governance of about 70 percent of the estimated 152 million people of the Nigerian population. Thus, they are said to be in a vintage position to aggregate and articulate the needs of the majority of Nigerians (Adedokun, nd) and facilitate rural development through the application of the needed financial and human resources in their operations. Generally speaking, from 1999 to 2013, local government operations and performance presents an enigma in terms of justifying the reason for their creation. The demands and expectations from local government councils over the years or within the period under review have been on the increase while the finance required to deliver the dividend of democracy and good administration at the grassroots continue to dwindle, inadequate, mismanaged and misappropriated.

Local government administration in Nigeria have been characterized by bazaar mentality, poor accounting systems, unavailability of reliable data required for planning, over-politicization, inadequate finance and poor revenue collection, greed, unnecessary government interference, lack of direction and corruption. The statutory allocations from the Federation Account because of poor management are said to be inadequate to cover the financial obligations of local government councils in terms staff salaries, social services and serving of debts. This shows that finance is vital to the affairs of both public and private organizations to enhance good governance; it involves plan and control of financial resources as a separate activity (Husband and Dockery, 1977). Acknowledging this, Aborisade (1981) cited in Onah (2005:131) notes:

> Finance is like a thread that runs round the cloth. If the thread is pulled wrongly at one end, it will affect the design of the cloth and destroy its beauty. That is finance. It must be handled with care. It must be disbursed absolutely according to the financial regulations.

The 1999 Constitution of the Federal Republic of Nigeria in the spirit of the 1976 Local Government Reforms strategically position local governments as third-level of government to provide public goods and services whose benefits and impacts are localized in nature (Egwaikhide, 2004:2). This point was made clear by Mbam (2012) he notes that local government councils in Nigeria being the closest to the people occupy a peculiar position as promoters of grassroots mobilization and participation in governance, and catalyst for rural transformation and development. Thus, a well-managed and administered local government system is essential to national transformation and development. However, certain provisions of the Constitution under reference constitute a hindrance in the performance of local governments in the country. They by implications turn local government councils as appendages of state governments. For instance, Section 7 (1) of the 1999 Constitution of the Federal Republic of Nigeria (as amended) provides that:

> The system of local government by democratically elected Local Government is under this constitution guaranteed, and accordingly, the Government of every State shall subject to Section 8 of this Constitution, ensure their existence under a law which provides for the establishment, structure, composition, finance and function of such council.

The above provision implies that the autonomy of local government councils in Nigeria is at the mercy of the federal and state governments. In most cases, State Governors are known to act as centre referees while the state legislators act as linesmen at the expanse of the rural dwellers. They solely depend on federal allocations and State Governors through the release of funds from State Joint Local Government Accounts (SJLGAs) and grants to satisfy their felt needs. The resultant effect of this is the inadequate financial base of most local governments in Nigeria, which makes it practically difficult to carry out their constitutional functions effectively (Okoli, 1999). This raises the need to revisit the issue of local government finance in Nigeria, as its viability and sustainability demands a pragmatic approach or what Atakpa, Ocheni and Nwankwo (2012) collectively captioned “options for maximizing local government internally generated revenue in Nigeria”.

Revenue Allocation in Nigeria

Discussions on local government finance most of necessity in most cases touch the issue of revenue allocation in Nigeria. The term “revenue allocation” is often used in association with such terms as fiscal federalism, resource control, and fiscal decentralization. It has been broadly defined to include the allocation of tax powers and the revenue sharing arrangements not only among the three tiers of government, but among state governments as well (Olowononi, 1998:

247). Fiscal federalism is a system of taxation and public expenditure in which revenue-raising powers and control over expenditure are vested in the various tiers of government within a nation, ranging from the national government to the smallest unit- the local government (Anyafo, 1996 cited in Dang, 2013). Basically, fiscal federalism emphasizes on how revenues are raised and allocated to different levels of government for development (Dang, 2013).

According to Nyong (1999), fiscal federalism concerns the relationship among the various levels of government with respect to the sharing of the national cake, assigned functions and tax powers to the constituent units in a federation. He asserts that the important issue in fiscal federalism is revenue allocation formula, sharing of the national revenue among various tiers of government (vertical revenue sharing) as well as the distribution of revenue among states (horizontal revenue allocation). For Ekpo (2003), fiscal federalism is a mechanism in which relations arising from the political decentralization of the public sector functions and responsibilities are resolved. The term deals with the allocation of resources among the three tiers and units of government, and institutions for the discharge of responsibilities assigned to each jurisdictional authority. The nature and well fashioned fiscal relations in any federal system are crucial to the continual existence of such systems. One of the cardinal principles of federalism is that no level of government is subordinate to one another, though there must be a central government for this arrangement. The important features of federalism are:

(i) Division of powers among levels of government
(ii) Coordinate supremacy of each level of government.
(iii) Financial autonomy of each level of government

Wheare (1943 cited in Olowononi, 1998:248), the chief exponent of federalism has emphatically argued that all the tiers of government are coordinate in status. This implies as he maintained that if state authorities, for example, find that the services allotted them are too expensive for them to perform, and if they call on the federal authority for grants and subsidy to assist them, then they are no longer coordinate with the federal government but subordinate to it. Consequently, in Wheare's contention, the financial subordination of the state and local governments as the case in the Nigerian experience from 1999 to 2013 "makes mockery of federalism no matter how carefully the legal forms may be preserved".

Although the question of how to generate, increase, allocate and expand revenue has constituted an issue in the Nigerian politics and governance since 1914, it was from 1946 that the issue of revenue sharing and allocation began to raise serious national debate since there was real fusion of fiscal operation in the country with the coming into effect of the Richards Constitution which provided for Legislative Council for the whole country and Regional Councils with large devolution of powers and functions. Consequently, various Revenue Allocation Commissions were set up at different times to examine and settle the issue of revenue allocation among the three tiers of government- the federal, state and local (Onwioduokit, 2002). Thus, it is apt to say, that the concept of fiscal federalism was first introduced in Nigeria in 1946 following the adoption of Richards Constitution (Vincent, 2000; http://www.doiserbia.nb.rs/ft.aspx?id=0013-32641189027S_br). The period 1947 to 1952 is a watershed in the beginning of sub-national governments because financial responsibilities were devolved to three regions-North, West and East. As Adesina (1998:232) puts until Nigeria's independence, the most contentious aspect of the nation's federalism, revenue allocation, remained the responsibility of the colonial masters.

Then, politicians accepted compromise as the price of access to the state office and thus to the revenue of the state.

Fiscal federalism became deepened during the military epoch of 1966 to 1990s following the creation of states and local government perhaps as a means of spreading development across the country and satisfying agitations from potential ethnic groups. The era of military rule began with the creation of twelve states in 1967. As observed by some commentators on Nigerian government and politics, the creation of more states and local governments was a deliberate tactics and technique to compel dependency of state and local governments on the federal government. As at present, there is a Federal Government, 36 States, Federal Capital Territory and 774 Local Governments in Nigeria. Nigeria has engaged various commissions and committees since the colonial days, and yet this issue continues to be in the front burner of national discourse and debate. From 1946 to 2000, nine Commissions, six Military Decrees, one act of the Legislature and two Supreme Court judgments have been resorted to in defining and modifying fiscal relationships among the component parts of the federation (Egwaikhide and Isumonah, 2001; *Fiscal Federalism - Dawodu.Com - The Premier website on* ... (n.d.). Retrieved from http://dawodu.com/eson1.htm_br). Among these commissions are Philipson Commission (1946), Hicks-Philipson Commission (1951), Louis Chick Commission (1953, Jeremy Raisman Commission (1958), the Binns Commission (1964), Dina Commission (1968), the Aboyade Technical Committee on Revenue Allocation (1977), the Okigbo Commission (1980), and Danjuma Fiscal Commission,1988 (Ekpo, 2004; Jimoh, 2003; Akindele, 2002; Udeh, 2002;Olowononi, 1998; Ovwasa, 1995).

Sources of Local Government Finance in Nigeria

Source of local government finance implies the various means through which local governments in Nigeria generate financial resources to meet their financial obligations in the course of discharging their constitutional functions and duties. There are two major sources of local government finance in Nigeria, namely, internally generated revenue (which is revenue generated within the local government area of administration and it entails local tax or community tax, poll tax, or tenement rates, user fees and loans); and externally generated revenue which refers to the local government funds generated outside the local government area of administration (Alo, 2012: 23). Internally generated revenue is a strategic source of financing local governments operation and which can be explored given the enabling environment and political will. The level of internally generated revenue by each local government depends on the size of the local government, nature of business activities, urban or rural nature of the council, rate to be charged, instruments used in the collection of revenue, political will and acceptability by the people to pay based on the legitimacy of the council and the socio-cultural beliefs of the citizens regarding the issue of taxation (Anifowose and Enemuo, 1999). Local governments are constitutionally empowered to control and regulate certain activities in their jurisdiction, and in so doing; they impose some taxes and rates on these economic activities as a way of generating funds for their operations.

The various ways local government generate revenue internally are community tax and rates; property (tenement) rates; general/development rates; licenses, fees and charges like marriage registration fees, cart/truck licenses; interest on revenues such as deposits, investments, profits from the sale of stocks, shares, etc; departmental recurrent revenues from survey fees, repayment of personal advances, nursery and day-care centres fees, rents on local government quarters, etc (Atakpa, Ocheni, and Nwankwo, 2012). From the foregoing, tax is an imperative ingredient of revenue generation, development and transformation. As Olaoye (2008), puts it, it is a compulsory levy imposed by the government on individuals, companies for the various legitimate functions of the state (and local government). The 1999 Constitution of the Federal Republic of Nigeria provides tax jurisdiction of federal, state and local governments (see table below). The table also shows the precarious position of local governments in generating revenue internally for projects execution and other financial commitments.

Table 1: Nigeria's Federal, State and Local Tax Jurisdiction and Assignment

Tax	Legal Jurisdiction	Collection	Retention
Import duties	Federal	Federal	Federation Account
excise duties	Federal	Federal	Federation Account
Export duties	Federal	Federal	Federation Account
Mining rents & Royalties	Federal	Federal	Federation Account
Petroleum Tax Profit	Federal	Federal	Federation Account
Capital Gains Tax	Federal	State	State
Personal Income Tax	Federal	State	State
Personal Income Tax: armed forces, external affairs, officers. Non-residents, residents of the FCT and Nigeria Police force.	Federal	Federal	Federal
Value added Tax (Sales tax before 1994)	Federal	Federal/ State	Federal / state
Company tax	Federal	Federal	Federation Account
Stamp duties	Federal	State	State
Gift tax	Federal	State	State
Property tax and ratings	State	State/ Local	State/ Local
Licenses and fees	Local	Local	Local
Motor park dues	Local	Local	Local
Motor Vehicle	State	Local	Local
Capital transfer tax (CTT)	Federal	State	State
Pools betting and other betting taxes	State	State	State
Entertainment tax	State	State	State
Land registration and survey fees	State	State	State
Market and Trading license and fees	State	Local	Local

Source: Anyawu, 1995, Jimoh, 2003; Federal Republic of Nigeria Constitutions, 1963, 1979 and 1999 cited in Kalu, K.I. (2011:11)

Tax if properly collected and transparently accounted for is a substantial source of annual income for local governments in the Nigeria. Unfortunately, inadequate and unreliable population statistics, corruption, large scale tax evasion, unemployment and poverty, lack of qualified personnel, poor planning and poor performance of local governments hinder tax collection in rural areas by local authorities. To motivate rural dwellers to pay tax, local governments must convince them through effective and efficient delivery of social services and public goods that are localized in nature. Local governments also generate revenue internally as noted earlier through commercial activities. This involves the ability to engage in commercial activities such as setting up of business ventures that include microfinance, savings and loans or mortgage finance, building of stores and shopping malls, renting local government properties like reception halls, chairs, canopies, tables, local government plants like tractors, generators, local and interstate transportation and ferry and boat transportation in the river-line areas and commercial farming among others (Ajayi, 2000). The external sources of revenue to local government include statutory allocation, grants and loans from federal, state and other sources. These sources are briefly discussed below:

The 1999 Constitution of the Federal Republic of Nigeria provides for statutory allocations of public revenue to local government councils within the state. For instance, Section 7 (6a-b) of the Constitution provides that the federal and states government are required by law to provide funds for local governments for developmental purpose and the administration of good government. For now, this is a major source of revenue to the local governments, and it is usually reviewed upward to boost their revenue base. For example, the statutory allocation to local governments was 10% of the Federation Account in 1979, and it was later reviewed to 15% in 1991 and 20% in 1992. Tables 2 and 3 below show respectively the "vertical allocation of the federation account from 1981 to 2004 and the distribution of Federal Allocation to the three tiers of government from 1999 to 2007.

Table 2: Vertical Allocation of the Federation Account from 1981-2004

ITEMS	Initial 1981 Act 1/	Revised 1981 Act	19 90	January 1992	June 1992 to April 2002	May 2002 (1st Executive Order) *	July 2002 (2nd Executive Order) *	March 2004 (Modified from FMF) 2/ *
Federal Government	**55**	**55**	**50**	**50**	**48.5**	**56**	**54.68**	**52.68**
State Government	**26.5**	**30.5**	**30**	**25**	**24**	**24**	**24.72**	**26.72**
Local Government	**10**	**10**	**15**	**20**	**20**	**20**	**20.6**	**20.6**
Special Funds	**8.5**	**4.5**	**5**	**5**	**7.5**			
-A) Derivation (Oil-Producing States)*	2	2	1	1	1	0	0	0
-B) Dev. Of Mineral Producing Areas	3	1.5	1.5	1.5	3	0	0	0
-C) Initial development of FCT Abuja	2.5	0	1	1	1	0	0	0
-D) General Ecological problems	1	1	1	1	2	0	0	0
-E) Stabilisation	0	0	0.5	0.5	0.5	0	0	0
-F) Savings	0	0	0	0	0	0	0	0
-G) other Special Projects	0	0	0	0	0	0	0	0
TOTAL	100	100	100	100	100	100	100	100

Note:

1. Nullified by Supreme Court in October 1981

* From the 1999 Constitution, the 13% Derivation provision is accounted for before the revenue is allocated into the federation account. 2. The current revenue formula is based on the modified grant from the Federal Ministry of Finance, which came to effect in March, 2004

Source: Ojo, 2010 cited in Kalu, K.I. (2011). *rmafc.gov.ng.* (n.d.). Retrieved from http://rmafc.gov.ng/2011%20RETREAT/PAPER.Fiscal%20Federalism%20in%20Nigeria%202011%20kalu%20i%20kalu%5B1%5D.doc_br

Table 3: Summary of Fiscal Allocation to Federal, State and Local Governments by RMAFAC (June 1999 – May 2007)

	Beneficiary	State Govt.	Local Govt	Total
1	Abia	113,956,322,728.62	66,957,033,320.83	180,913,356,049.45
2	Adamawa	111,973,469,608.66	88,385,118,660.50	200,358,588,269.16
3	Akwa Ibom	384,370,238,540.34	110,896,366,303.24	495,266,604,843.58
4	Anambra	97,592,169,763.11	85,847,453,591.19	183,439,623,354.30
5	Bauchi	128,248,345,518.84	98,833,751,081.01	227,082,096,536.85
6	Bayelsa	414,158,710,867.12	38,101,830,075.82	452,260,540,942.94
7	Benue	120,963,431,284.39	100,676,342,004.41	221,639,773,288.79
8	Borno	127,814,189,455.35	114,329,322,081.28	242,143,511,536.62
9	Cross River	115,403,682,833.25	74,990,493,054.89	190,394,175,888.13
10	Delta	463,459,893,918.76	97,961,571,804.08	561,421,465,722.84
11	Ebonyi	97,825,886,665.52	51,780,333,382.06	149,606,220,047.59
12	Edo	119,085,051,909.31	77,565,785,400.62	196,650,837,309.93
13	Ekiti	92,732,057,109.79	60,134,219,325.71	152,866,276,435.50
14	Enugu	103,979,483,787.19	68,964,491,966.13	172,943,975,753.31
15	Gombe	96,583,878,576.74	49,916,381,357.36	146,500,259,934.10
16	Imo	132,104,455,243.39	99,280,101,362.71	231,384,556,606.10
17	Jigawa	117,009,316,440.23	108,615,763,243.89	225,625,079,684.13
18	Kaduna	138,928,609,161.09	117,182,125,094.69	256,110,734,225.77
19	Kano	179,437,799,067.94	191,497,373,448.88	370,935,172,516.81
20	Katsina	140,721,433,816.83	139,822,729,992.43	280,544,163,809.26
21	Kebbi	109,325,901,797.25	86,787,009,340.22	196,139,911,137.47
22	Kogi	108,937,683,153.98	86,187,515,182.33	195,125,198,336.31
23	Kwara	99,576,991,214.56	66,011,107,696.79	165,588,098,911.35
24	Lagos	182,535,977,642.02	149,392,517,393.59	331,928,495,035.61
25	Nassarawa	90,518,301,030.98	54,487,876,090.81	145,006,177,121.79
26	Niger	126,254,889,591.23	111,114,801,956.06	237,369,691,547.30
27	Ogun	114,180,594,528.10	81,197,512,355.95	195,378,106,884.06
28	Ondo	183,313,507,542.89	74,082,244,267.18	257,395,751,810.07
29	Osun	107,476,926,982.08	102,574,611,292.67	210,051,538,274.76
30	Oyo	135,928,952,381.15	127,369,093,326.38	263,298,045,707.53
31	Platueau	81,759,592,808.53	73,434,508,057.07	155,194,100,865.61
32	Rivers	517,682,993,860.57	104,313,280,579.65	621,996,274,440.22
33	Sokoto	118,067,536,171.07	96,232,809,149.69	214,300,345,320.76
34	Taraba	103,462,234,004.51	72,869,810,839.60	176,332,044,844.11
35	Yobe	104,904,723,192.25	72,326,009,351.84	177,230,732,544.09
36	Zamfara	112,898,217,046.50	70,091,324,490.36	182,989,541,536.86
37	FCT	149,703,394,069.21	43,324,238,682.88	193,027,632,752.09
	Total	5,742,903,843,313.33	3,313,534,856,541.80	9,056,438,699,855.13
38	Fed Govt			7,390,688,951,768.72
	Grand Total			16,447,127,651,623.80

Source: Federal Ministry of Finance 2007

Despite that local governments received ₦3,313,534,856,541.80 from the Federation Account from 1999 to 2007 to provide social services to people in their jurisdiction, their performance remains poor (Ajayi, 2000).

Statutory allocations have always been a major source of political debate as they have been persistent agitations for more allocations from the Federation Account. The federal government on its own part has always fulfilled its obligation of releasing funds to local governments through statutory allocations. Unfortunately, state governments are known to have contributed to the poor performance of local governments in their jurisdictions. Many states operate a Joint State Account for Local Governments as required by the Constitution but abuse it for selfish reasons. This has consistently raised agitations for local government reforms and their possible scrapping. Obasanjo raised this point during his tenure (1999-2007) as President of the Federal Republic of Nigeria, thus, in essence, what we have experienced in the country is the abysmal failure of the local council system. Local governements funding has increased such that at no time in the history of the country has there been the current level of funding accruing to them from the Federation Account (Obasanjo, 2003; *creation of local government areas and ethnic conflicts in* ... (n.d.). Retrieved from http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.119.5294&rep=rep1&type=pdf_br).

From Obasanjo's reflections, local governments have performed so poor, thus, producing exactly the opposite of the original objectives for their creation. Ukiwo (2006:2) supporting this thesis maintained that instead of bringing government and development closer to the people, local governments have produced absentee local government chairmen who are only seen at council headquarters when the monthly 'Abuja Allocation' arrives and vamoose with their standby jeeps and mobile police escorts after superintending over the sharing of the local government's share of the national cake among the relevant stakeholders. The hope for rapid and sustained development at the grassroots has been a mirage as successive local government administration grossly underperformed in almost all the areas of their mandate (*Creation of Local Government Areas and Ethnic Conflicts in* ... (n.d.). Retrieved from http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.119.5294&rep=rep1&type=pdf_br).

Most state governors are anxious to exploit the constitutional provision on the Joint State Local Government Account to control local government finance; they hijack local government elections to produce their devotees as council chairmen, who pay their political dues by accepting every deduction made on the joint account. This trend in the management of local government finance has encouraged financial corruption and embezzlement of public funds thereby incapacitating local council chairmen with an excuse to meet up with the constitutional and administrative obligations to its citizenry in their jurisdiction.

Grants are different from statutory allocations because statutory allocations are constitutional rights of the local government councils while grants are voluntary and seasonal depending on the exigencies of federal and state governments. Grants could come from the state, federal or other donor agencies which are meant to assist them execute certain developmental projects. They are usually earmarked for particular projects that are of utmost importance to the local communities and areas. Such projects are often supervised by the donor of the grants in order to ensure that the aims are achieved. Grants can also be for recurrent purposes, apart from capital projects; recurrent grants can be given to local governments to meet up with certain obligations like the payment of staff salaries. Again, it is the relationship between the state, federal and local governments that determine the level of the grants received.

Loans are often sorted from financial institutions by local governments for short and long-term projects and programmes. Local government councils could source for funds through loans to invest in capital projects such as construction of markets, roads, transportation, building of shopping malls and financing budget deficits. However, in some cases, loans are discouraged because of the possibility of mismanagement and embezzlement by corrupt local government officials who perceived the loans as personal funds. More so, local government chairmen obtain series of loans from financial institutions and passed the burden to the incoming administration which weakens the financial base of the local government council, thus, hinder performance in carrying out their constitutional responsibilities.

The Management of Local Government Finance in Nigeria

For the management and control of local government finance, the 1999 Constitution of the Federal Republic of Nigeria provides for the establishment of State Joint Local Government Account in each state of the federation where funds from the Federal Account are lodged before disbursement to the local government councils in the state. This arrangement has been hijacked by state governments to starve local governments in their jurisdiction the needed funds for project implementation and rural development. This point is aptly acknowledged by Mbam, the Chairman of the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) when he observed that information at the disposal of the Commission show unethical practice in the disbursement of funds from the State Joint Local Government Account in various states of the federation. As he maintained, allocations from the Federation Account, most times do not actually reach the Local Government Councils. There are numerous allegations of manipulation of the Account at the point of disbursement. States hardly make their own contributions as stipulated by Section 162 (7) of the Constitution of the Federal Republic of Nigeria. In view of the above challenges, it is the position of the RMAFC that Local Governments should be granted fiscal autonomy by paying statutory allocations from the Federation Account directly to their coffers in which case the State Joint Local Government Account should be abolished through appropriate reforms (see “RMAFC Canvasses for Direct Funding of LGAs”).

There are a number of financial management and control under democratic setting in Nigeria. One of such is the legislative control. Local governments operate under a legislative framework established by the constitution of the country. These legislative provisions are meant to guide the disbursement of funds in the system. Technically, local governments in Nigeria operate under three levels of legislative frameworks. There are National Assembly, State Assembly and the Legislative Councils. But practically they operate more under the latter as legislative councils are directly responsible for the budget of councils and implementation of the local government financial vision. These checks and controls are “toothless bulldog that barks but cannot bite”. Despite these checks and control, poor funding remains the most cited reason for the inefficient implementation of public policies and programmes at the grassroots.

Budgeting and Budgetary Control in the Local Government

Budgeting and budgetary control is another means of managing and controlling local government finance in Nigeria. An effective budgetary control mechanism ensures the existence of a sound financial planning and control which is a pivotal for sustainable growth and development in Nigeria especially at the grassroots.

Budgetary control involves a periodic comparison of actual expenditures with planned expenditure and whether budgetary disbursement is in compliance with the provisions of the financial regulations and other relevant financial authorities in the country.

Thus, Nigerian local governments must embark on annual budget monitoring and evaluation to ascertain the level of budget performance. The results of this annual budget monitoring and evaluation exercise will provide the needed statistical input for the preparation of a more functional budget in the subsequent or succeeding year. In most local governments in the country, disbursement of funds is based on political need instead of appropriation. An appropriation is a law passed by the legislature authorizing expenditures for a subsequent financial year or defined period. Local governments are to ensure that funds allocated to various projects under different sub heads in the appropriation are utilized for their intended purpose since any alteration of resources allocation results in virement which may be a cumbersome process. The movement of funds from one subhead or project to another must not be undertaken except with the approval of the legislature through the passage of a supplementary appropriation law called virement. Strict adherence to these budgetary control procedures ensures that funds are utilized only for the purpose for which they are allocated in the annual budget.

Factors Affecting Local Government Finance in Nigeria

A number of factors affecting local government finance in Nigeria have been identified by scholars and professionals. Fundamental among these factors are the issues of unequal share of resources, absence of fiscal autonomy, overdependence in allocations from the Federation Account, creation of non-viable local governments, dishonesty and corruption, etc.(Alo, 2012). There are only very few local government councils (mostly urban located) in the country that are economically viable, thus, survive without financial allocation from the Federation Account. King (1988:197), succinctly notes that local governments will be dynamic vehicles of rural transformation and development if they are well financed, as well as, ably staffed. He further states that staff and revenue are profoundly interlinked. Local governments with inadequate financial resources can hardly recruit and retain competent workers who demand competitive salaries and fringe benefits. Efficient and well motivated workers can make positive contributions that can boost revenue generation at the grassroots. In addition to the above factors, local governments in Nigeria suffer from the following challenges (Alo, 2006; Adewunmi, 1999; Oviasuyi, Idada, Isiraojie, 2010):

(1) Inadequate and Poor Budgetary Process: Budgeting is the nerve centre in the management of financial resources in both public and private organisations. A budget is a financial plan that shows in detail the proposed estimate of revenue and expenditure for a defined period, usually one year Onah, 2005; Adamolekun, 1983). It is one of the powerful instruments for effective financial management and control in both developed and developing countries. With regards to local governments in Nigeria, a budget stipulates the financial objectives of the local government for a period of one year and set out strategies for their accomplishment. If adequate plan is made for revenue generation in the budget, more revenue will be generated, if not, the result will be low income generation. Local governments in Nigeria are known to suffer from inadequate and poor budgetary process.

(2) Ineptitude to work and low quality of manpower: The control of public funds in the local government is achieved through the career principal accounting officers like council Chairman, Treasurer, Head of Personnel Management, Internal Auditor and the Local Government Service Commission. Unfortunately, the men that ought to protect the system through exemplary conducts are known to be involved in bureaucratic politics to guarantee the siphoning of funds through frivolous activities and fictitious contracts**.** The successful provision of services as contained in the annual budgets of local governments in Nigeria depends on whether the targeted revenue is actually realized and effectively utilised. This in turn depends on the competence, honesty and diligence of the key financial officers of the local government like treasurer, internal auditor, council chairman who is the accounting officer and other financial officers. The challenge is that local governments in Nigeria in most cases recruit persons who do not possess the requisite leadership and managerial skills to deliver their constitutional responsibilities. The provision that makes the minimum educational qualification for chairmen and councilors positions to be post primary education has made "local government councils the dumping ground for semi-literates or a starting point for political toddlers".

(3) Administrative Inefficiency: Local governments in Nigeria suffer from administrative inefficiency and ineffectiveness resulting from low educational qualifications of staff, poor motivation, autocratic leadership, poor work environment, etc. The management and control of finance is a central factor in the management of local governments. The quality and promptness/effectiveness of local government services depend on the quality and quantity of workers in the system. Politically, politicians divert from their campaign promises through scheming of ways to remain in office and swell their private financial bank accounts with public funds of the local government. They abandon principles of good governance and democratic ideals that are fundamental in promoting administrative efficiency and effectiveness for selfish. A case in point is the indictment of some state governors and local government officials by Economic and Financial Crime Commission (EFCC) for diverting finance of local governments.

(4) Quest for Local Government Creation: The unbridled agitation for local government creation in Nigeria is often perceived as a means benefiting from the "national cake". The proliferation of local government councils without consideration to independent economic viability has produced interethnic crises and political instability in the country. Thus, a scholar has cautioned that local government must not be seen as a gift on a platter of gold from the state or federal government but must be striven for and conceived essentially as a means of developing the rural areas. Locality clamouring for a local government unit must be mature and must demonstrate readiness to sustain the local government through sufficient internally generated revenue (Mabogunje 1995:9).

Akpan (1965:126) posits that the bottom line in judging the effectiveness of local government in discharging its constitutional responsibilities amount to funds at its disposal. The services rendered by local government councils cost money which most of them cannot boast. It is important to note that the financial crisis in the local governments has worsened because the federal government has failed to recognize the new local governments and development centers created by some state governors. Governors of such states use part of the statutory allocations meant for the recognized local governments to pay staff salaries of the new ones (Zwingina, 2003)

Concluding Remarks

Finance, whether from internal or external sources is important in local government administration. There is no meaningful project that can be executed without adequate finance. The external revenue generation is a major source of local government finance. In fact no local government can survive without external revenue generation, particularly from the statutory allocations. It is important for local government to be more active in developing avenues for generating revenue such as investment in capital projects that are likely to appreciate and capacity building aimed at generating returns on investments made. The idea of local governments being to tide to monthly statutory allocations should be dropped. They must explore the innovative approach of generating revenue internally. These sources are mass transit transportation that is well managed, coordinated and accounted for; petrol filling stations; commercial farms; nursery schools and day-care that has the potential of generating revenue; establishment of endowment funds, etc. Undue interference in the finances of local government councils by the federal and state governments should be checked. The situation where state government control local government councils and direct them how to spend their money through programmes packaged and handed down to them should be stopped.

Selected Bibliography

Adamolekun, L. (1983). *Public Administration: A Nigerian and Comparative Perspective.* New York: Longman Inc

Adedokun, A. A (nd). Local Government Tax Mobilization and Utilization in Nigeria: Problems and Prospects. http://visar.csustan.edu/aaba/Adedokun.pdf. Retrieved on 1/12/13

Adewunmi, A. (1999): *The studies in comparative local government and practice of Administration* Lagos: African education Press.

Agba, M.S., Ogwu, S.O. & Chukwurah, D.C. (2013). An Empirical Assessment of Service Delivery Mechanism in Idah Local Governemnet area of Kogi State, Nigeria (2003-2010). *Mediterranean Journal of Social Sciences,* 4(2): 621-635

Ajayi, K (2000): *Theory and Practice of Local Government.* Ado-Ekiti: University of Ado-Ekiti.

Akindele, S.T and Olaopa (2002). *Fiscal Federalism and Local Government Finance in Nigeria.*http://unpan1.un.org/intradoc/groups/public/documents/CAFRAD/UNPAN008121.pdf. Retrieved on 7/12/13.

Akindele, S.T, Olaipa, O.R. and Obiyan, A. Sat. (June, 2009). Financial Autonomy and Consistency of Central Government Policy towards Local Governments. *International Review of Administrative Sciences,* 75: 311-332

Akpan, N (1965): "The development of local government in eastern Nigeria" *Journal of local Government Overseas* 4 (2).

Alo, E.N. (2013). Fiscal Federalism and Local Government Finance in Nigeria. *World Journal of Education*, 2(5): 19-27

Aluko, M. (2006): "The Fight between Federal and State Governments over Revenue Allocation" New Age Online

Anifowose, R and Enemuo F (1999): *Elements of Politics.* Lagos:

Atakpa, M., Ocheni, S. & Nwankwo, B.C. (2012). Analysis of Options for Maximizing Local Government Internally Generated Revenue in Nigeria, *International Journal of Learning and Development,* 2(5): 94-104

Bello-Imam, I. B. (1990): "*Local Government Finance in Nigeria"* Ibadan: NISER.

Dang, D.Y. (2013). Revenue Allocation and Economic Development in Nigeria: An Empirical Study. http://sgo.sagepub.com/content/3/3/2158244013505602. Retrieved on 6/12/13.

Egonnwam, J.A. (2000): *Principle and practice of Local Government in Nigeria:* Benin City, SMO Press

Egwaikhide, F. O.(2004). "Intergovernmental Fiscal Relations in Nigeria". In Egwaikhide, F. O. (eds.). *Intergovernmental Relations in Nigeria,* Ibadan: Programme on Ethnic and Federal Studies,1-23.

Ekpo, A. (2003): Fiscal federalism: Nigeria Post-Independence experience 1960-90, *World Development* Vol. 22, (8), 65-71

Ekpo, A. (2004, August 10-12). *Intergovernmental Fiscal relations: The Nigerian Experience*. Paper presented at the 10th Year Anniversary of the Financial and Fiscal Commission of South Africa, Cape Town, South Africa.

Federal Republic of Nigeria (1999): "Constitution" Abuja: Federal Government press.

Jimoh, A. (2003, October 7-9). *Fiscal federalism: The Nigerian experience*. Paper presented at the Ad-Hoc Expert Group Meeting—Economic Commission for Africa, UNCC, Addis Ababa, Ethiopia.

Kalu, K.I. (2011). Fiscal Federalism in Nigeria: Practices and Issues. Being 2011 Uyo Retreat Papers. http://www.rmafc.gov.ng. Retrieved on 6/12/13

King, M.C. (1988). *Localism and Nation Building.* Ibadan: Spectrum Books

Mabogunje, A. (1995): "Local Governance the concept of social Capital*"*. workshop on Governance and Democratization in Nigeria, Ile-Ife, Obafemi Awolowo University Conference center. Malthouse Press Ltd.

Nyong, M. (1999): Fiscal Federalism, Revenue Allocation Formula and Economic Development in Nigeria. *Nigerian Financial Review,* 7 (3): 33-37

Obasanjo, O.A. (2003): *"A Call for Local Government Reform on his 2003 re-election as President in Abuja"*

Okeke, M. (2004): "The Politics of Revenue Allocation and Resource Control in Nigeria: A Critical Analysis of the Niger Delta Crises" Ph.D seminar paper, University of Nigeria, Nsukka.

Okoli, F.C. (1999): *Theory and Practice of Local Government*: A Nigerian Perspective Enugu: John Jacob's classic Publishers

Olaye, C.O (2008): "A Review of Revenue Generation in Nigerian Local Government" A Study of Ekiti State International Business Management, 3(3): 54-60

Olowononi, G. D. (1998). Revenue Allocation and Economics of Federalism. In Amuwo, A., Agbaje, A. Suberu, R. & Herault, G. (eds.). *Federalism and Political Restructuring in Nigeria.* Ibadan: Spectrum Books Ltd, PP. 247-260

Onah, F.E. (2007): *Fiscal Federalism in Nigeria.* Nsukka: Great AP Publishers Ltd.

Onah, R.C. (2005). *Public Administration,* Nsukka: Great AP Express Publishers Ltd

Onwioduokit, E. (2002): "Revenue Allocation for a Stable Democracy in Nigeria: Options and Challenges. Achimota African Christian Press

Oviasuyi, P.O.; Idada, W. and Isiraojie, L. (2010).Constraints of Local Government Administration in Nigeria. *Journal of Social Science,* 24(2):81-86

Ovwasa, O. L. (1995). Fiscal federalism in Nigeria: A historical analysis. *Transafrican Journal of History*, *4*, 70-83.

RMAFC Canvasses for Direct Funding of LGAs http://www.rmafc.gov.ng/RMAFC%20CANVASSES%20FOR%20DIRECT%20FUNDING%20OF%20LGAs.pdf. Retrieved on 5/12/13

Udeh, J. (2002, October). *Petroleum revenue management: The Nigerian perspective*. Paper presented at the Workshop on Petroleum Revenue Management, Washington, DC.

Vincent, O. (2001). *Fiscal federalism: Nigerian Experience.* Fourth Republic Lecture: The Nigerian Economic Society.

Zwigina, J. (2003):*"The Decision to scrap local government" in the floor of the Senate*" comet (1) http/www.cometnewsonline.com.