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INTERGOVERNMENTAL FISCAL RELATIONS AND LOCAL GOVERNMENT PERFORMANCE IN NIGERIA

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Abstract: **Intergovernmental fiscal relations and Local Government Performance in Nigeria has continued to attract tremendous attention from experts and keen observers especially since the return of democratic rule in 1999. Using a Systems perspective, this paper examined the issue by looking at how fiscal federalism evolved in Nigeria, Local Government sources of revenue visa vice their assigned functions and the operation of the State Joint Local Government Account System. The paper discovered that the existing fiscal structure in the country which was inherited from the colonial and military eras and adopted by the 1999 Constitution, is skewed against local governments when it allocated a paltry 20.6% of federally collected revenue to it, tied it to an unholy joint account with their respective State governments and left it with empty or hard-to-collect revenue sources. The paper therefore recommended an increase in the percentage of revenue going to local governments in the country from the federation account to 25% , abolition of the State Joint Local Government Account System, the inclusion of six ALGON officials in the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC), strengthening of the Nigerian Financial Intelligence Unit (NFIU)or creation of a similar organ of government to monitor the disbursement and usage of funds by local governments and the enthronement of full blown democratic governance as against the current Caretaker System so as to give more political autonomy to local governments in Nigeria.**

Keywords: **Intergovernmental Fiscal Relations, Local Government and Performance.**

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1. INTRODUCTION

Regardless of the system of government in practice in any country, Intergovernmental Fiscal Relations (IFR) is a contentious issue which appears more critical in a state with a federal system of government. Accordingly, the issue has become so contentious in Nigeria that if care is not taken, it can throw up a big spanner to the smooth running and continued survival of the Nigerian State. For instance, Baker (1984) cited in Olorungbemi (2015) noted that revenue allocation issue is not a secondary matter but a primary issue that is fundamental to the political stability of the country. (Fatile, Fajonyomi and Adejuwon, 2017) observed that state-local government relations are among the most contested issues in Nigeria's fourth republic. They maintained that the contention is made more complicated by the provisions of the 1999 Constitution which make the institution of local government, especially its establishment, structure, composition, finance and functions, a residual matter for state governments and that the issue of sharing resources among the three levels of government has remained controversial due to lack of an acceptable formula.

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The bickering over the matter owe its foundation to the way the Nigerian federation evolved. However, attempts at tackling the problem has led to several policy steps which included, the creation of several Commissions, Committees, enactments and even court judgments that were all geared at finding a lasting solution to the problem, (Sam, Eme and Emeh, 2012).

Evolution of Fiscal Federalism in Nigeria can be properly situated within the different political, constitutional, social, cultural and economic developments which have in turn influenced the nature and character as well as the pattern of intergovernmental relations in Nigeria before and after independence (Oluwole, 2013). The pattern of Intergovernmental Relations in Nigeria, from inception till date differs fundamentally because of the mode of engagement between the central or federal government and other tires of government in the country. During the colonial era for instance, intergovernmental relations in Nigeria were more like that of a father and his son in which the father gives out what he feels is good to the son . The colonial government was the father who determined the existence, structure, functions and financing of local administration in the country. In the immediate post independent period, this behavior remained unchanged as most regional governments replaced the colonial government in this father/son relationship by beginning to dictate, as usual, the existence, structure, functions and financing of local governments in their respective jurisdictions. The situation took a more dictatorial dimension during the military era and even after the acclaimed Local Government Reforms of 1976 as most State governments still continued to frustrate their local governments from enjoying their due financial and administrative autonomy.

But the introduction of the 1979 Constitution marked a turning point in the mode of interactions between local governments and other tiers of government as this constitution changed the existing father and son relationship between state and local governments in Nigeria by ensuring that all tiers of government in the country derived their power of existence from the constitution (Kasali, 2013; Nwekeaku, 2007; Oluwole, 2003; Chiamogu, Onwughalu and Chiamogu, 2012) as well as gave them the opportunity to start receiving their statutory federal allocations direct from source.

However, notwithstanding these prescriptions and the numerous panels created to straighten fiscal relations among the three tiers of government in the country, what prevailed still remained unsatisfactory to the third tier of government and to all keen observers of the system. By creating the State/Local Government Joint Account System, the 1999 Constitution made matters worse for Local Governments as it left the room for State governments to continue to suppress, cheat and manipulate Local governments in their respective jurisdictions. Stories are told of how some state governments have not only failed to remit the statutory ten percent (10%) of their internally generated revenue to local governments within their jurisdictions but have also continued to hijack statutory allocations meant for their local governments (Okoli, 2005), thereby leaving local governments with virtually nothing to carry out their duties. Propelled by these sad commentaries, efforts were made under the former Peoples Democratic Party (PDP) government (of Chief Olusegun Obasanjo in 2005 to 2006 but to no avail) to stop handing over statutory revenues accruing to local governments in each state of the federation to their respective State governments. Same attempt is being initiated by the present All Progressives Congress, APC-led government of Gen. Mohammadu Buhari (Rtd.) through the instrumentality of the newly rolled out Nigerian Financial Intelligence Unit (NFIU), in collaboration with banks operating in Nigeria, to ensure that statutory allocations going to local governments in the country from the federation account are not usurped by their respective state governments again.

Even as State governors are still kicking against the new policy, it is believed that any perceived imbalance in the expenditure responsibilities and the revenue base of local governments could result to service disruptions that will rub off on the reasonability or otherwise of local government system in the country. As most rural local governments largely depend on statutory allocations from above to execute their programs, delay in the disbursement of such funds or an outright denial of it portends serious danger to the performance and continued relevance of local government system in the country.

How the subsisting fiscal relations affects the performance of local governments in Nigeria is the central focus of this paper.

Concept of Intergovernmental Fiscal Relations: Definition of terms and names, as the Greek philosopher Aristotle argued, is the beginning of any meaningful discussion (Olaiya, 2016). We therefore begin the journey by explaining the concept of intergovernmental fiscal relations. Inter means between. Intergovernmental therefore explains the relationship between two or more governmental entities either from a horizontal or vertical perspective. As used here however, the

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term describes the vertical variant of that relationship. That is, the financial relationship amongst the three tiers of government in Nigeria. Intergovernmental Fiscal Relations which is also known as Fiscal Decentralization refers to the public financial aspect of intergovernmental relations. It specifically addresses the system of expenditure functions and revenue sources, including transfers from the central to the sub national governments in a country. It deals with the structuring of governmental functions and finances between or among the various levels of government in a state with two or more levels of government and with such arrangement being either horizontal or vertical. However this paper is concerned with the vertical variant of fiscal relations, i.e. one involving the allocation of revenue and taxing powers as well as the interaction between or amongst levels or tiers of government in a Country.

A general conclusion emerging from the view of scholars and policy makers on the topic is that sub-national governments need to be given access to adequate resources to do the job with which they have been saddled. At the same time, they must also be accountable for what they do with these resources. The institutions of Intergovernmental fiscal relations comprise the constitutional set up of a country; the division of power between governmental levels; the prevalence of fiscal rules across government levels; intergovernmental budget frameworks; the role of independent bodies such as fiscal commission in shaping fiscal relations.

Perhaps the most fundamental question in fiscal relations especially in a federal state like Nigeria is, 'why do countries have more than one tier of government'? Why must a country choose to have a central government plus one or more lower tiers of government rather than entrusting all governmental functions to the central government? The answer lies in the argument for decentralization. That is, that decentralization can improve the efficiency of public service provision by allowing the rendering of government services to vary from area to area in accordance with local wishes. Again, a system of multi-level government enables services to vary in accordance with local needs, meaning that those citizens in any area who dislike the services provided in their area can move to another area that would serve them better.

The principles that guide the implementation of intergovernmental fiscal relations include: The Principle of Diversity, Principle of Equivalence, Principle of Centralized Stabilization, Correction of Spillover Effects, Minimum Provision of Essential Public Goods and Services, Principle of Fiscal Equalization, Efficiency Principle, Principle of Derivation, Principle of Locational Neutrality and Principle of Centralized Redistribution (Agiobenebo, 1999)

It should be noted however that all the above principles are not mutually consistent. They are difficult to apply simultaneously. Therefore, tradeoffs are necessary in order to avoid conflicts. There is no doubt that the general principles of fiscal federalism appeared to have informed Nigeria's attempt at intergovernmental fiscal relations. The different principles have been dictated by a combination of historical experiences, political, cultural and social factors.

Concept of Local Government:

The 1976 Local Government reform defined a Local Government as: government at local level exercised through representative Councils established by law to exercise specific powers within defined Areas. These powers should give the Councils substantial control over local affairs as well as the staff and institutional and financial powers to initiate and direct the provision of services to determine and implement projects so as to complement the activities of the state and Federal government in their Areas and to ensure, through devolution of functions to these Councils and through the active participation of the people and their traditional institutions, that local initiative and response to local needs and conditions are maximized (Olaiya, 2016). According to Agbani and Ugwoke (2014), a local government simply is the government that is responsible for the management of public affairs of the people of a locality. Local Governments all over the world exist to achieve certain societal values, including political values - training in democracy, political participation or citizenship and new promotion of liberty by acting as a check on arbitrariness of the central government (Akpomuvire, 2003). This government is permitted by law to take charge of local services such as maintenance of law and order, municipal services, provision of basic social and economic infrastructure among others. It is a tier of government with assigned legislative and executive powers to execute and make policies covering a particular local area. This implies the existence of a relationship between this government and other tiers of government since the same people that live in such areas inhabit the State and the Federation. Because of this, the constitution clearly spells out such relationships, assigns responsibilities and fiscal powers to each tier of government and recognizes the local government as a third tier of government in a country like Nigeria.

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A local government merely serves as the agent as well as an arm for implementing the ideals, objectives, programs, and aspirations of the national government but not a substitute for it. It merely serves as an instrument for effective and efficient performance and delivery of government services and amenities at the local level. The Local Government in most countries has come to be seen as a competent unit of government that is capable of assessing the needs of the local communities.

In Nigeria today, there are Seven Hundred and Seventy Four (774) Local Governments, spread across the thirty six states of the federation. Even as local government affairs is, by the 1999 Constitution, under the jurisdiction of State governments, their creation, number in various States of the federation, its reform instrument; were initiated by the federal government during past military regimes.

Evolution of Intergovernmental Fiscal Relations in Nigeria

The evolution of fiscal federalism in Nigeria derives from economic, political, constitutional, social and cultural developments that have taken place in the country. As Nigeria progressed from a unitary to a federal system of government, the form of government became more and more decentralized with changes in existing fiscal arrangements. In examining the history of the country's fiscal federalism, this paper divided the period into three broad time frames:

(1) Colonial Era,

(2) The Post-independence era, and

(3) The Democratic era.

(i) Pre-Independence Era

Before the introduction of a republican constitution in 1963, the fiscal arrangements on ground were influenced by political and constitutional factors. Several commissions were created to review existing fiscal arrangements and make appropriate recommendations. These commissions include:

(1) The Phillipson Commission, (1948).

(2) The Hicks-Phillipson Commission, (1952).

(3) The Louis-Chick Commission, (1954).

(4) The Raisman-Tress Commission of 1959 (Dang, 2013).

The chief aim of these commissions was to fashion out an acceptable revenue sharing formula for all segments of the country as they existed then.

(ii) The Immediate Post-Independence Period

This is the period immediately following Nigeria's attainment of independence and republican status in 1960 and 1963 respectively. This period experienced significant economic, social and political changes, including an almost three-year civil war (1967-1970) which affected government expenditures and revenue patterns. The form of government was further decentralized in 1967 by the creation of 12 states out of the erstwhile four regions. In 1976, 7 new states were created to bring the total to 19 and local governments became officially known as the third tier of government. Two (2) new states (Akwa Ibom and Katsina) were created in 1987, thereby bringing the number of states in the country to 21, excluding the Federal Capital Territory (Abuja). The number of states in the country increased to 30 in 1991 and then to 36 states in 1996. A major economic feature of the post independence period was the ascendancy of the petroleum sector as the major foreign exchange earner. The windfall profit from petroleum beginning in 1974 and the dependence of the economy on oil revenues had implications on fiscal matters. However, as a result of the recession that set in soon after the boom, a lot of stabilization and adjustment packages with implications for the country's fiscal operations were taken. More concretely, the economic crises that ended the era influenced – positively or negatively – the evolution of fiscal federalism in post independent Nigeria. As usual, some of the fiscal commissions that were initiated during the period include:

1. The Binns Commission of 1964.
2. Interim Revenue Allocation Review Committee (Dina Committee), 1968.

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3. The Technical Committee on Revenue Allocation (Aboyade Committee), 1977.
4. The Okigbo Commission, (1979).
5. The Danjuma Commission of 1988 (Dang, 2013).
6. **(iii) The Democratic/Fourth Republic Era:**

In May, 1999, civil rule returned to the country after sixteen years of a second military interregnum. During this period, there existed controversies regarding the country's fiscal operations and as a result some states, especially those in the Niger Delta, sued the Federal Government and the matter ended in the Supreme Court. One remarkable phenomenon of this period was that the National Revenue Mobilization, Allocation and Fiscal Commission (NRMAFC) which though inaugurated in 1990, became somewhat effective during this period by rejecting any unlawful interference from any level of government that is against the provisions of the constitution.

It is worthy of note that all the Commissions/Committees earlier listed above were ad-hoc in nature except for the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) which was established as a legal and permanent entity to deal with fiscal matters on a more regular basis as the need arises (Lukpata, 2013). Within the same period, RMAFC proposed a new vertical revenue sharing formula that allocated the following percentages to the three tiers of government in the country:

(a) Federal Government 41.3%

(b) State Governments 31%

(c) Local Governments 16%

However, not satisfied with the above, some State Governments from the southern part of the country came up with what they considered to be a fair and realistic revenue sharing formula for the three tiers of government in the country:

(a) Federal Government 36%

(b) State Governments 36%

(c) Local Governments 25%

(d) FCT 1%

(e) Ecology 2%

But a presidential executive order by then government of President Olusegun Obasanjo prescribed another revenue sharing formula for the country which has remained in use till date. The formula is as listed hereunder:

(a) Federal Government 52.68%

(b) State Governments 26.72%

(c) Local Governments 20.60%

Local governments and other levels of government

Local governments and other tiers or levels of government interact in more ways than one. Apart from having their specific expenditure responsibilities and exclusive funding sources, there are limitless areas they need to interface with the state and federal governments in order to ensure overall government service delivery to the people. By appearing to be the bridge between the people and other tiers of government, they, most times, receive grants in aid of special programs designed to benefit the people at the grassroots. Sometimes there are specific grants designed to solve specific problems like flood, erosion, etc. Ekpo and Ndebbio (1998) maintained that local governments receive certain transfers from the Federal and State governments to enable them meet part of their recurrent and capital expenditures. These transfers range from statutory allocations to primary education funds. From States, Local governments also receive statutory allocations, grants, loans and funds for certain projects. It must be noted that States are mandated by law to allocate 10% of their internally generated revenue to Local governments within their jurisdiction. In other words, in addition to the allocations received from the federation Account, States must ensure that Local governments within their domain receive 10% from

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their (State) internally generated revenues (IGR) on the basis of such factors such as minimum responsibility of government. When these areas of cooperation are not adequately streamlined, conflicts (especially between them and their state government) do occur. These conflicts arise because of the nature of spelling out or identifying which tier of government ought to perform certain function(s) or when state governments, as is now the case, deliberately and skillfully attempt to usurp their functions and funding bases. However, the stabilization and structural adjustment packages of 1983–1986 seem to have forced Local governments in Nigeria to struggle to generate their own internal revenues in order to close the gap and reduce their fiscal dependence on the other arms of government.

The fear is that given the poor revenue base of most local governments in Nigeria, occasioned by the prevailing lopsided fiscal structure, local governments in the country are finding it difficult to adequately render services that are allocated to them by the constitution.

Local Government Functions and Their Financial Resources:

The Fourth Schedule of the 1999 Constitution of the Federal Republic of Nigeria, as amended, clearly spelt out the main functions of local governments as:

• The consideration and the making of recommendations to a State commission on economic planning or any similar body on

(i) The economic development of the State, particularly in so far as the areas of authority of the council and of the State are affected and

(ii) Proposals made by the said commission or body.

• Collection of rates and radio and television licenses

• Establishment and maintenance of cemeteries and burial grounds and homes for the destitute or infirm

• Licensing of bicycles, trucks (other than mechanically propelled trucks), canoes, wheelbarrows and carts

• Establishment, maintenance and regulation of slaughter houses, slaughter slabs, markets, motor parks and public conveniences

• Construction and maintenance of roads, streets, street lighting, drains and other public highways, parks, gardens, open spaces, or such public facilities as may be prescribed from time to time by the House of Assembly of the State.

• Naming of roads and streets and numbering of houses.

• Provision and maintenance of public conveniences, sewage and refuse disposal.

• Registration of all births, deaths and marriages.

• Assessment of privately owned houses or tenements for the purpose of levying such rates as may be prescribed by the House of Assembly of a State.

• Control and regulation of: - outdoor advertising and hoarding - movement and keeping of pets of all descriptions - shops and kiosks – restaurants, bakeries and other places for sale of food to the public - laundries and licensing, regulation and control of the sale of liquor.

• Participation in: - provision and maintenance of primary, adult and vocational education.

•Development of agriculture and natural resources (other than the exploitation of minerals)

•Provision and maintenance of health services

• Any other functions as may be conferred on a local government council by the House of Assembly of a State.

A close look at these duties will reveal areas of conflict since States have very similar functions according to the 1999 Constitution. It is clear that local government councils are supposed to enhance growth and development within their areas of jurisdiction. In virtually all local governments, growth efforts are moving at snail speed as most local governments are financially handicapped because of the wrong implementation of the State Joint Local Government Joint Account System. Where they are permitted, some of them have floated investment companies to source for funds in both

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capital and money markets. Funds raised through this means are to be used to finance projects jointly or solely with individuals or institutions. These efforts are more noticeable in rural–based local governments with some of these activities co-sponsored by relevant Federal and State government agencies, including some Nongovernmental Organizations (NGOs). Some Local governments are investing in health, education, safe drinking water, etc., all in order to improve the living standard of the people. More importantly, some own sizeable shares in Community Banks within their area and this way, they are contributing to the growth process (Abdulrashid and Goni, 2013).

To be able to carry out all the functions listed above, it is necessary that local governments must have reasonable and adequate financial resources. As a government that is nearest to the people, they must embark on projects and services that have direct bearing on the life of the people. To be able to do this, local governments are made to derive their revenue from

•The federation account statutorily,

•Grants, taxes and rates levied locally.

•Other sources of fund available to it include,

i. License fees

ii. Proceeds from Hire purchase

iii. Lease of Council properties and

iv. Investments, including lands, markets, buildings and in some cases, commercial undertakings and businesses.

State Joint Local Government Account System and Local Government Performance in Nigeria.

According to Ojugbeli and Ojoh (2014), the Joint Account System was reintroduced into the Constitution of the Federal Republic of Nigeria, 1999 after it was given birth to in the 1979 Constitution from the 1976 local government reforms. Section 162 (6 and 7) of the 1999 Constitution provided for an account to be known as the State Joint Local Government Account, into which shall be paid all allocations to the Local government councils of a State from the Federation Account and from the government of the State. Subsection 8 of the same Section provided that any amount standing to the credit of Local government councils of a State shall be distributed among the Local government councils of that State on such terms and in such manner as may be prescribed by the House of Assembly of the State. These sections of the constitution proscribed direct allocation to the councils but put the disbursements under the supervision of every State Government. Due to this provision, direct allocation to the councils was no longer possible.

Following this constitutional provision, the federal government of Nigeria, in 2004, enacted an Act of the National Assembly which is cited as The Monitoring of Revenue Allocation to Local Governments Act, (2005), which among other things, made provision for the:

1. Establishment and membership of the State Joint Local Government Account Allocation Committee for each State.

2. Functions of the Committee.

3. Rendering of account.

4. Establishment of Joint Area Councils Account Allocation Committee for the Federal Capital Territory.

5. Functions of the Joint Local Government and Area Councils Allocation Committee.

6. Limit on powers of State Governments or Federal Capital Territory for borrowing money.

7. Limits on powers to deduct or re-allocate any amount standing to the credit of State Joint Local Government Accounts, etc.

8. Report by the Accountant-General of the Federation.

9. Report by the Auditor-General for the Federation

(Source: Center for Laws of the Federation of Nigeria, Tree & Trees Center, Lagos, Nigeria)

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The operation of this account has been noted to have a two way effect on local government service delivery – one advantage and several disadvantages. It has been argued that the account has provided an avenue for States to monitor the activities of their Local governments and to promote even development in the State, using the agreed criteria in revenue sharing among the Local governments in the States. It is important to note on the other hand that in spite of the existence of an Act of the National Assembly, disbursement, usage and monitoring of local government statutory allocations from the federation account, States have been identified to be operating the account in breach of the law and as a tool for manipulating their Local governments to the extent that allocations coming to Local governments are diverted at the State level to fund State, rather than Local government projects, which in most cases, do not bear any direct benefit to the local people. Sometimes also, funds are released to Association of Local Governments of Nigeria (ALGON) members to execute projects without passing through the appropriate channels in the local government. In some other instances, bureaucratic delays result from the processes of remitting funds from the joint account to Local governments and this causes setbacks in the smooth execution of capital projects at the local level. Nwogwugwu, and Olusesi (2015) observed that:

State Governments make deductions from the account without the consent of their councils for projects and procurements initiated by the State governments and carried out by it on behalf of the councils. The payment of Primary School Teachers Salaries which presently constitutes about (65%) of the total allocation received from the federation account constitutes a huge burden on the finances of the Local Governments. This is especially so, as States do not make any financial contribution to the joint account. Local Government Chairmen, who are usually either appointed by the State Governors as Caretakers or elected through elections conducted by the State Independent Electoral Commission (SIEC) members that were appointed by State governors, seem frustrated and hopeless with a system that leaves them incapacitated financially. The operations of the State-Local Government Joint Account, makes financial autonomy granted to the Local Governments a mere paper work.

In operating the account, State governments have direct access to the Council funds that come from the federal account and makes careless deductions from it before disbursing to their Local governments. Such weak Council Chairmen, within the circumstances they found themselves, have no political will to oppose the position of the State, since they owe their mandate to their State Governors and not the people. The deductions that are made from the JAAC before distribution to the local governments make it impossible for the Local Governments to have adequate funds to cater for the services they render. (Murana, 2015) concluded that the method of management of the joint account which indirectly keeps the local governments at the mercy of the state, without their contributions is not justifiable.

In their own submission, Ojugbeli and Ojoh (2014) listed the problems of the joint account system to include:

1. Illegal deductions from Local Government statutory allocations
2. Delay in the release of Council statutory allocations.
3. Diversion of Local Government statutory allocations.

Internal Revenue Generation and Local Government Performance:

Internally Generated Revenue (IGR) is the revenue that a Local Government generates within its area of jurisdiction. The capacity to generate revenue internally by a Local Government is very important for the implementation of its budget and so the extent to which it can go in accomplishing its goals will largely depend on its IGR strength. Because of this, IGR capacity is supposed to be the life-wire of a Local Government. The onus then lies on local governments to work on their internal revenue efforts to be able to accomplish their goals in the local communities.

Tomori (2009) asserts that local governments are generally assigned expenditure responsibilities for a wide range of services, including roads, water and sewage services, solid waste collection and disposal, recreation and culture, land-use-planning, social services, public health and housing. These responsibilities cannot be adequately tackled without a solid revenue base. Revenue generation in Nigeria local governments is principally derived from tax whose development in Nigeria can historically be traced back to the period before colonial rule. During this period, Community taxes were levied on communities (Rabiu, 2004).

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However, a lot of problems bedevil tax revenue generation in the local governments. Among the problems are those that border on unrealistic tax base, untrained valuation staff and corruption among local government officials. For instance, shortage of trained valuation staff will make taxes on real property difficult to assess. Omoigui-Okauru (2012) cited in Oseni (2013) asserts that States and Local governments are often considered poor in the areas of internally generated revenue because most of them do not have a comprehensive data on who should pay tax or the key economic activities that can generate tax income, stressing that this has always affected the revenue flow from internally generated sources. Naiyeju (2011) mentioned in Oseni (2013) is of the opinion that States and Local governments have continued to demonstrate total lack of interest in improving their lots towards improved revenue generation by preferring to use consultants to administer taxes, rather than modernizing their tax systems for enhanced revenue yield and lessen dependence on allocation from the Federation Account. Ojo and Owojori (1998) attributed the causes of poor internally generated revenue in the Local government system to lack of adequate resources such as vehicles and personnel for mobilizing IGR, the potential sources of IGR at each local government not being adequately tapped and the potential payers of taxes, rates and charges not willing to pay due to biases and other personal reasons. Oseni (2013) opines that the absence of good and vibrant informal sector coupled with few industries will cause internal revenue to be low. Those working in the informal sector of Nigerian economy do not see the need to pay tax whereas they dominate the economy (Abiola and Asiweh, 2012). Ahunwan (2009) cited in Abiola and Asiweh (2012) observed that the Nigerian tax system has been flawed by what is termed multiplicity of taxes and collecting entities at the three tiers of government – Federal, State and Local. Even revenue collection officers seem to be lenient or even connive with those in the informal sector during enforcement of tax policies (Abiola and Asiweh, 2012)

One major administrative problem faced by many Councils today is their inability to fully collect revenues due to them. In most Councils, there are huge gaps between reported and projected revenues. Recent studies conclude that this is due to:

(1) Poor administrative capacity to assess the revenue base;

(2) Poor administrative capacity to enforce the taxes;

(3) Explicit and intentional tax evasion and resistance from taxpayers;

(4) Corruption, including embezzlement of revenues;

(5) External pressure on the local finance department to provide optimistic projections; and

(6) Political pressure on the local tax administrators to relax on revenue collection

Division of Taxing Powers and Responsibility for Collection of Taxes

The imposition or assessment of a tax is the means by which the government acquires the revenue required for its activities. This is usually, by way of a monetary charge imposed by the government on persons, companies, transactions or property to yield revenue. This division invariably depends on the system of government, whether it is federal or unitary. As Nigeria runs a federal system of government, its tax laws are enforced by the three levels of government, i.e. Federal, State, and Local with each having its sphere clearly spelt out in the Taxes and Levies (approved list for Collection) Decree, 1998, as amended under President Goodluck Jonathan administration. The amended law is now cited as Taxes and Levies (Approved List for Collection) Act, Cap. T2, Laws of the Federation of Nigeria. This amendment was done to stop the challenges of multiplicity of taxes and levies in Nigeria. In the Act, taxes, levies and fees collectible by the various tiers of government were spelt out as listed hereunder.

(i) **Taxes Collected by the Federal Government**

- Company income tax.
- Withholding tax on companies, residents of the Federal Capital Territory, Abuja and non-resident individuals.
- Petroleum profits tax.
- Education Tax.
- Value Added Tax.

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- Capital gains tax on residents of the Federal Capital Territory, Abuja, corporate and non-resident individuals.
- Stamp duties on bodies corporate and residents of the Federal Capital Territory, Abuja.
- Personal income tax in respect of

(a) Members of the armed forces.

(b) Members of the Nigeria Police Force.

(c) Residents of the Federal Capital Territory, Abuja; and

(d) Staff of the Ministry of Foreign Affairs and non-resident individuals

(ii) Taxes and levies collected by a State Government.

- Personal income tax in respect of:

(a) Pay-As-You-Earn (PAYE);

(b) Direct taxation (Self-assessment)

- Withholding tax for Individuals
- Capital gains tax for individuals
- Stamp duties on instruments executed by individuals.
- Pools betting, lotteries, gaming and casino taxes.
- Road tax.
- Business premises registration
- Development levy for individuals
- Naming of street registration fees in State Capitals.
- Right of Occupancy fees on lands owned by the State Government.
- Market taxes and levies where State finance is involved.

(iii) Taxes and Levies to be collected by a Local Government

- Shops and, kiosks rates
- Tenement rates
- On/Off liquor license fees
- Slaughter slab fees.
- Marriage, birth and death registration fees.
- Naming of street registration fees, excluding any street in the State Capital
- Right of Occupancy fee on lands in rural areas, excluding those collectable by the Federal and State Governments.
- Market taxes and levies excluding any market where State Finance is involved.
- Motor Park levies.
- Domestic animal license fees.
- Bicycle, truck, canoe, wheelbarrow and cart fees, other than a mechanically propelled truck.
- Cattle tax payable by cattle farmers only.

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- Merriment and road closure levy.
- Radio and television license fees (other than radio and television transmitter).
- Vehicle radio license fee (to be imposed by the local government of the State in which the car is registered.
- Wrong parking charges.
- Public convenience, sewage and refuse disposal fees.
- Customary burial ground permit fees.
- Religious places establishment permit fees.
- Signboard and advertisement permit fees.

Theoretical Foundation:

This paper is anchored on the Political Systems theory of David Easton (Easton, 1975). The theory views organizations (including States) as a unified whole that is made up of interrelated parts or units. These parts or units are called subsystems and each part contributes to the effective functioning of the whole and produces output that is greater than what would have been the output of the constituent units, were they to operate separately. Systems Theory emphasizes that organizations must be seen as one whole unit that has interrelated parts, all working towards the attainment of a singular goal. This being the case, any defect or error in any unit will affect the whole unit. The subsystems represent the decision units or departments of an organization. Thus, the attitude of the subunits will determine the effectiveness or otherwise of the whole unit.

Applying the theory to this paper, the Nigerian federation is the whole system or whole unit with the three tiers or levels of government as its subsystems or sub units which must work together for the effective functioning of the Nigerian federation or for effective service delivery to the people. In line with the teachings of the systems theory, the pursuit of one common goal by the three tiers of government within the Nigerian federation, i.e., the federal, state and local governments will produce results far greater than the sum total of what the levels of government will achieve were they to go it alone. If governance at the local level fails or were there to service disruptions at the local government level as a result of a lopsided fiscal arrangement that does not protect local governments, service delivery and over all wellbeing of the people will negatively be affected. Hence, the three levels of government are critical stakeholders in service delivery and in the survival of the Nigerian federation and so treating local governments as a dispensable appendage or extension of either the State or the Federal government of Nigeria does not connote true federalism and will be an ill wind that will impact negatively on service delivery in the country.

2. CONCLUSION

It has been observed that given the existing fiscal relations amongst the various tiers of government in the country whereby the entire local governments in the country (774 of them) are allocated only a paltry 20.6% from the Federation Account, effective service delivery at the local level may be hard to come by. With the operation of the State Joint Local Government Account System especially in the way it is presently done, this paper concludes that performance by governments in the country will continue to suffer because State governments will not let go of their misguided and self serving diversion of funds from the joint account for their own use. This is typified by the stiff opposition most of them are expressing on the funds management new policy recently released by the Nigerian Financial Intelligence Unit (NFIU) of the Central Bank of Nigeria (CBN), detailing how Local Government funds will henceforth be disbursed and managed to ensure that those who own the money get them and for its proper utilization. Findings also reveal that local governments in Nigeria will continue to be in quandary as well as remain an appendage of their various state governments if they continue to find it unable to be self sustaining through effective generation of their own internal revenue. Faced with a hostile local population who don't see payment of taxes as an obligation, the few available soft tax sources were observed to have been taken over by their marauding State governments, leaving them with virtually nothing to collect at the end of the day.

3. RECOMMENDATIONS

In line with the findings of this paper, it is necessary to put forward the following recommendations:

1. The government of Nigeria, through the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC), should come up with a more realistic revenue formula that will increase the percentage of statutory revenue going to local governments in the country to 30% from the present 20.6%. As a government that is nearest to the people, this will go a long way in making more resources available at the local level to strengthen their capacity to deliver quality services to their people.

2. If local government system is truly regarded as a third tier of government in Nigeria, then it is strongly recommended that through the instrumentality of the Association of Local Governments of Nigeria (ALGON), local governments in the country should have at least six (6) representatives in the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC),- one representative each from the six (6) geopolitical zones in the country, -to project and protect their interests on revenue mobilization and sharing matters.

3. It is also strongly recommended that Section 162(6) of the Constitution of the Federal Republic of Nigeria, 1999 should be amended to scrap the State Joint Local Government Account System under which State Governments have hidden to divert funds belonging to local councils in their respective States. This will go a long way in according Local Governments in the country their independence and the necessary financial autonomy they need to operate effectively. Alternatively, the activities of the new Nigerian Financial Intelligence Unit (NFIU), created to track the disbursement and usage of Local Government funds in the country and other similar measures, should be given adequate backing irrespective of the outcry coming from State Governors in the country.

4. An agency to be known as Federation Account Distribution and Compliance Commission (FADCC) should be established to monitor, report and prosecute any government official at any level that diverts or refuses to remit to any level of government, revenues belonging to any level of government as granted by the relevant laws of the land. This will particularly help to compel State governments to pay to their respective local governments the statutory 10% of their internally generated revenue as provided by law.

5. There should be an enactment by the national assembly, baring State governments from usurping some perceived lucrative local government revenue sources like markets and motor park fees as have sometimes been seen in some states like Anambra and Imo States.

6. An intergovernmental agency that will see to the vertical collaboration of the various tiers of government on financial and related matters need to be created. Operating like the Federal Character Commission (FCC), it shall be the duty of this agency to monitor and report deviations by any level of government like seizure of funds, usurpation of revenue powers, diversion of funds meant for another level of government and any other that are likely to result to friction or misunderstanding on revenue matters.

7. The federal government should make efforts to alter the section of the Constitution that gave State Governments the power to set up State Independent Electoral Commissions (SIEC) and to conduct elections into Local Councils by handing over such powers to the Independent National Electoral Commission (INEC) to conduct elections to fill Local Government positions. By so doing, States will be stopped from appointing their own stooges whom they always manipulate as Council Chairmen.

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