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Analysis of the State of States and Local Governments Finance in Nigeria's Fourth Republic

Isiaka Olalekan Aransi[1] Hammed Adetola Adefeso[2]
Department of Local Government Studies, Faculty of Administration
Obafemi Awolowo University, Ile-Ife, Osun State, Nigeria

Abstract
This paper examined the state of finance of sub-nationals in Nigeria. Descriptive statistics was employed to analyze the financial operation and management of States and Local Governments in Nigeria's fourth republic. The study found Allocation from the Federation Account (AFA) as the major source of revenue to both states and local governments but State Allocation to Local (SAL) was the least source revenue to Local Government in Nigeria. The study also discovered that Internally Generated Revenue (IGR) was the second generator of revenue to the State Governments most especially from 2006 to 2014 but poor source of fund to Local Governments. The study also found that both the State and Local government recurrent expenditure i.e. SRE and LRE (payment of wages and salaries) were slopped upward however, while State Government Capital Expenditure (SCE) was also increasing but below State Government Recurrent Expenditure (SRE), Local Government Capital Expenditure (LCE) was decreasing. Contrary to expectation, the study found that Nigeria's fourth republic was characterized by increasing in deficit financing among State Governments while insignificant budget surplus was recorded among Local Governments except the years 2000 and 2008. The study therefore, recommended strongly the sustainability of alternative sources of revenue to sub-nationals in Nigeria.
Keywords: State government; local government; finance
JEL Codes: H71; H72; H74

1. Introduction

The current economic depression being witnessed by the economy is the most recent factor creating turbulent times for the state and local governments in Nigeria. This has not only affected the recent monthly statutory allocation to states and local governments of the federation but also both their recurrent and capital expenditure which have had negative feedback effect on developmental programmes and objectives. The main source of federal government revenue from 1960 and the early 1970s was revenue from agricultural products which dominated the Nigerian national income, while revenue from other sources was considered as residual. The relative neglect of the agricultural sector led to fall in non-oil tax revenue which was matched with an increase in import duties until 1973. With the oil boom of 1973/1974 up till the recent time, oil revenue has dominated Nigeria's revenue structure as its share in federally collected revenue rose from 26.3 per cent in 1970 to 81.8, 72.6 and 76.3 in 1979, 1989 and 1999 respectively (Odusola, 2006). It rose again from 76.3 per cent in 1999 that marked the beginning of fourth republic to 85.8 per cent in 2005 and then dropped to 78.7 per cent in 2009 reflecting the increasing emphasis by government on non-oil sector since mid 2000. For about 40 years, the revenues were largely derived from primary product of oil sector which has grown phenomenally and the sector has accounted for at least 70 percent of the federal government revenue in Nigeria.

Instead of transforming or diversifying the existing revenue base by developing other sector such as manufacturing sector, fiscal management has merely transited from one primary product-base revenue to another. This has made the economy to equally susceptible to the international oil price volatility, thus, indicating that the economy is based on a single product. The implication of this as evidenced in the studies of Collier and Hoeffler (2005) and Collier (2006), the countries receiving large revenues from natural resource endowments typically raise less revenue from domestic taxation, and that this creates governance problems because the lower domestic tax effort reduces the incentive for the public scrutiny of government. Despite this huge rent from oil, the economy still grapples with many problems such as high and rising rate of unemployment and poverty, poor infrastructural development (Akinlo, 2012) across states and local governments in Nigeria.

These lower tiers of governments currently face nearly unprecedented fiscal turmoil as a result of volatility in the international oil price which is exogenously determined and led to the instability in the federal government revenue. Even before this recent international oil price crash, states and localities have being facing challenges both to improve effectiveness and efficiency in public service provision and to generate revenue sufficient to fund these crucial public services because of the dwindling in the regular statutory allocation to these tiers of government. This paper therefore, provides an overview of the state and local government financial operation, a descriptive analysis of the relative state of the statutory allocation to state and local governments of the recent

[1] Professor of Local Government Studies
[2] Lecturer I and Corresponding Author

years, and problems and challenges state and local governments usually encountered.

2. Overview of the challenges in State and Local Government Finance in Nigeria

Finance is an indispensable tool for the survival of any organization. It is a prerequisite for the survival of both the public and private organization to maintain itself and effectively and efficiently meet its commitment to individuals and groups who consume its output of goods and services. Both the state and local governments are public sector organization with assigned functions and responsibilities, administrative structure as well as financial jurisdiction for the maintenance of themselves and to deliver its statutorily assigned functions and responsibilities to its citizen. Therefore, the centrality of finance to organizational performance also applies to both the state and local government.

2.1 Challenges of State Government Finances

A major lesson that the democratic dispensation has brought into bold relief is that the state, as one of the tiers of government, has a duty to develop its own vision and mission and design strategies to advance its development as the era that the vision of state governments were espoused in the national budget as it was under the military government are no longer in practice. However, adequate mode of finances is sine-qua-non to the achievement of these developmental objectives. Most State governments of the Federal Republic of Nigeria are confronted with the severe problem of fiscal imbalance as the internally generated revenues are often inadequate in relation to their expenditures. It has equally been argued that the revenue allocation formula which determined the statutory allocation to the state governments is defective. The Nigeria's federal structure comprises of the federal government and the 36 state governments as well as 774 local governments areas which serve as the third tier of government. The formula favoured federal government to take 52.8% of all federally collected revenue and the 36 States to share 26.72% while the 774 local government councils share 20%. Though, corruption is factor, but this may be responsible for the increment in the level of deficit financing of some State governments even when oil which accounted for lion share in the Nigerian National Income was being sold for above 100 US Dollars per barrel in the process of meeting up to ever increase in demand of the electorates such increments in the minimum wages to the workers to prevent strike action from the labour union and public service deliveries in Nigeria.

2.2 Challenges of Local Government Finances

Since 1976, the various constitutions of the Federal Republic of Nigeria have granted local government the status of a third tier of government for robust Nigeria's federal structure. Between 1976 and 1992, the Federal Government revenue allocation formula in relation to local governments jacked up from 10% to 20% of the Federation Account and this is addition to 10% of the internally generated revenue of the state governments as well as local or internal sources of the local governments. It has been discovered however, that the amount internally generated by each local government councils, was too small and unsustainable and therefore, had to depend wholly on the Federal and State Governments for the financial transfer in order to perform their statutory functions. Despite this heavy financial dependence, extant literature still showed that the situation of local government funding in is uncertain, unstable and problematic because of this dependence on the higher tiers. The 1999 Constitution of the Federal Republic of Nigeria provides for the establishment of State Joint Local Government Account (SJLGA) in each state of the federation where funds from the Federal Account are lodged before disbursement to the local government councils in the respective state. Unfortunately, this process has been hijacked by State Governments to starve local governments in their jurisdiction the needed funds for project implementation and rural development. The Chairman of the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) noted that allocations from the Federation Account, do not actually reach the Local Government Councils coupled with the numerous allegations of manipulation of the Account at the point of disbursement and that State Governments hardly make their own contributions as stipulated by Section 162 (7) of the Constitution of the Federal Republic of Nigeria. It is because of these challenges that RMAFC posited that SJLGA should be abolished and Local Governments should be granted such fiscal autonomy that would enable them to access their statutory allocations from the Federation Account directly to their coffers which has not been materialized and as a result, poor funding remains the most cited reason for the inefficient implementation of public policies and programmes at the grassroots in Nigeria.

3. Descriptive analysis of the Structures and components of the budget of States and Local Governments in the Nigeria's Fourth Republic

Figure 3.1 showed various sources of revenue to the states government in Nigeria over the period of 1999 to 2014. It is clear that the major source of revenue to States Governments of the federation is the Statutory Allocation from the Federation Account (AFA). Most of these states governments face severe problems of fiscal imbalance as Internally Generated Revenues (IGR) are usually small in relation to their expenditures and it is because of this that made most States Governments to be financially dependent on the Statutory Federal

Allocation from the Federation Account, non-Statutory grants (GRANT) from the Federal Government, Value Added Tax (VAT) share by the Federal Government, Stabilization Fund Receipt (SFR) and Share of Excess Oil Reserve (SEOR) by the Federal Government. Figure 3.1 shows that there has been an upward trend in statutory Allocation from Federal Government in the fourth republic in Nigeria with exception of only 2009 which recorded a substantial short fall in the allocation to the State Governments and insignificant increase 2014. Internally Generated Revenue (IGR) which is the second generator of funds most especially from 2006 to 2014 to the state government also exhibited an upward slopping curve but lesser than AFA. The Value Added Tax (VAT) shared by the Federal Government to the States Governments displayed slippery upward trend and clearly became third generator of revenue most especially from 2011 to 2014. Both Share of Excess Oil Reserve (SEOR) and Stabilization of Fund Receipt (SFR) to the State Governments exhibited hump-shaped. The former served as the third revenue generator to the States Governments from 2007 to 2010 and fell thereafter to fourth revenue generator while the latter was the fifth generator of revenue to the State Government in the Fourth Republic most especially from 2007 with exception of 2014. The Stabilization Fund Receipt (SFR) is the least revenue generator to the State Governments and this is because the money would only be provided by the federal government to stabilize the economy between boom and depression period.

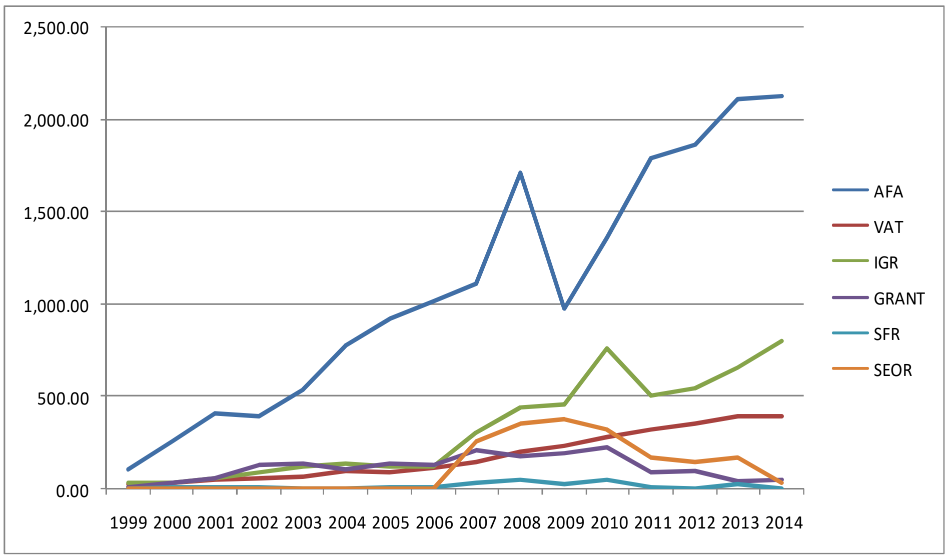

Figure 3.1: Comparative Trend Analysis of different Sources of Revenue to the State Governments in the Nigeria's Fourth Republic
Source: Author's Computation (2016)

Figure 3.2 showed various sources of revenue to the Local Governments in Nigeria over the period of 1999 to 2014. The major source of revenue to Local Governments is also the Statutory Allocation from the Federation Account (AFA) which has increased drastically over the years. The data showed that State Allocation to Local Governments (SAL) was the least source of fund to local governments in the Nigerian Fourth Republic followed by Internally Generated Revenue (IGR). Both SAL and IGR are poor source of funds to local governments in Nigeria. The Value Added Tax (VAT) accrued to local government equally displayed slippery upward trend which is an indication that the revenue is increasing yearly in Nigeria. Excess Crude Oil (ECO) is another source of fund to local government in Nigeria. It reached its peak in 2008 and thereafter it has been on the downward trend in the Nigerian fourth republic. Also, grants (GRT) to local governments started to have manifested effect between 2011 and 2013 but reached its peak in 2012 in Nigeria.

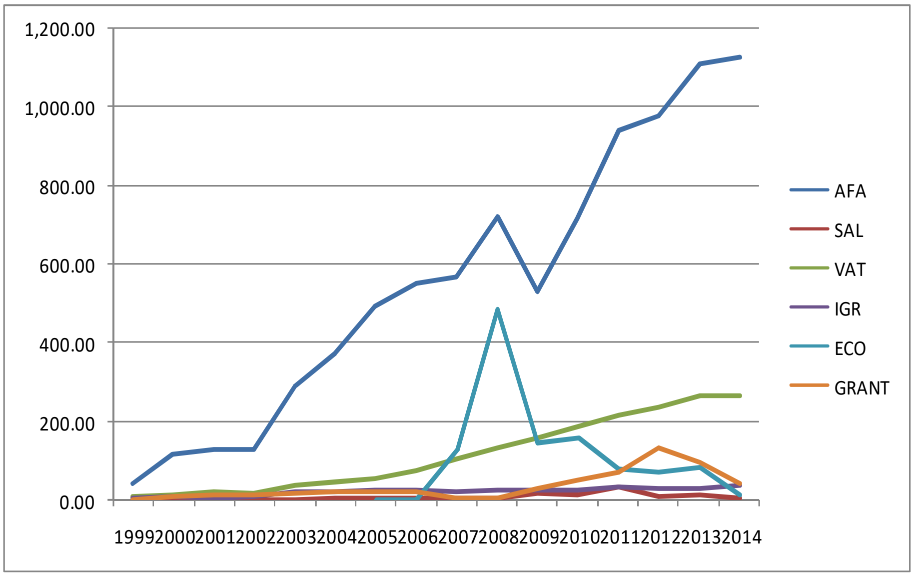

Figure 3.2: Comparative Trend Analysis of different Sources of Revenue to the Local Governments
Source: Author's Computation (2016)

Figure 3.3 showed the levels of recurrent expenditure and capital expenditure States in Nigeria over the period of 1999 to 2014. It was clearly shown that State Recurrent Expenditure (SRE) which is majorly composition of salaries and wages and State Capital Expenditure (SCE) exhibited an upward sloping curve. This is an indication that both the recurrent and capital expenditures are increasing on yearly basis but recurrent expenses of States Governments greater than capital expenditure except in 2012, this means that in the Nigerian fourth republic, larger percentage of state revenue are used to pay wage and salaries of workers.

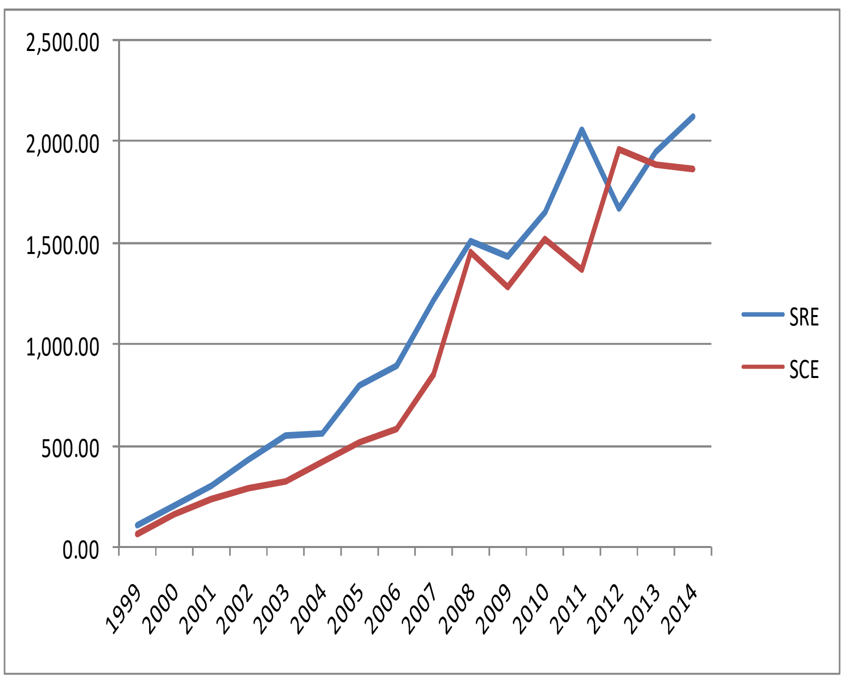

Figure 3.3: Comparative Trend Analysis of Recurrent and Capital Expenditure of State in the Nigeria's Fourth Republic
Source: Author's Computation (2016)

Figure 3.4 showed the trend and pattern of recurrent expenditure and capital expenditure of local governments in Nigeria over the period of 1999 to 2014. As shown below, the Local Government Recurrent Expenditure (LRE) which is comprised of payment of salaries and wages exhibited an upward sloping curve and there was a pronounced divergent between LRE and Local Government Capital Expenditure (LCE) as the latter exhibited downward trend most especially from 2011 to 2014 which witnessed tremendous increase in recurrent expenditure at the expense of capital expenditure. This indicated that little resources were allocated for the public service delivery at the grass roots in Nigeria and larger percentages of revenue are used to pay wage and salaries of workers.

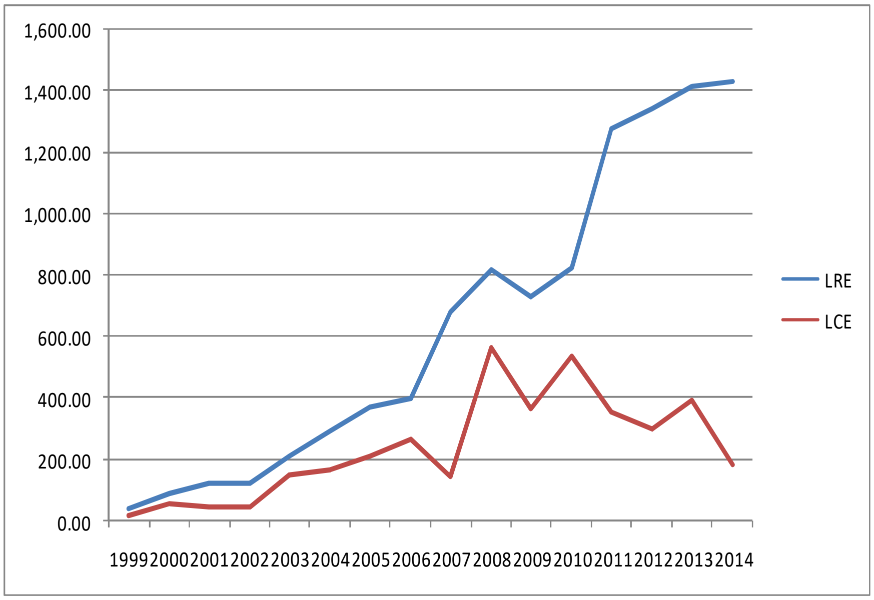

Figure 3.4: Comparative Trend Analysis of Local Governments Recurrent Expenditure and Capital Expenditure in the Nigeria's Fourth Republic
Source: Author's Computation (2016)

Figure 3.5 displayed the trend and pattern of State Total Revenue (STR) and State Total Expenditure (STE) which were upward sloping reflecting the fact that both were increasing on yearly basis. Contrary to expectation, the Nigerian fourth republic is characterized by increasing in the deficit among the state despite the increase in the allocation from the federation account of the federal government of Nigeria and this was equally the period crude oil was being sold for 120USD per barrel.

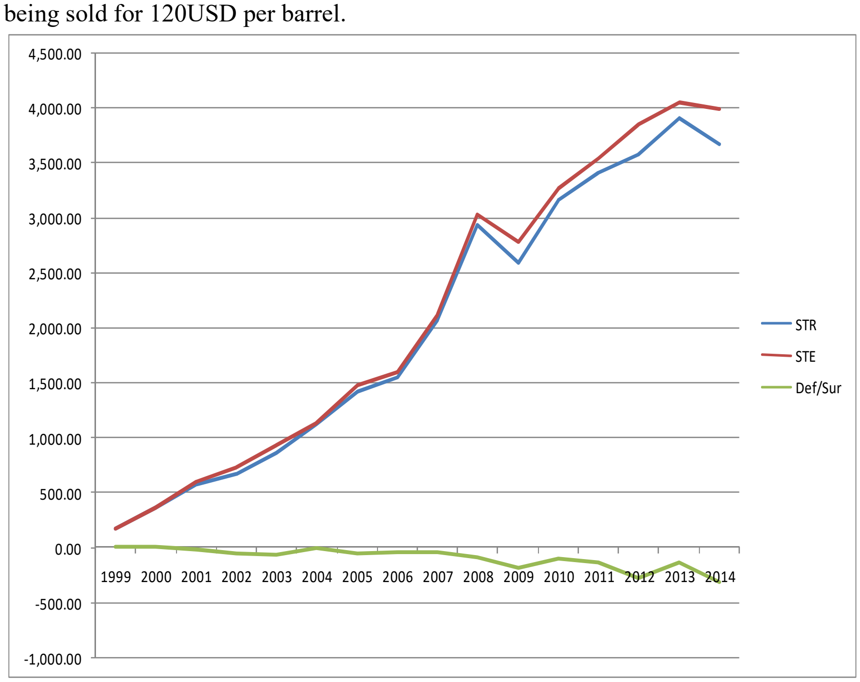

Figure 3.5: Comparative Trend Analysis of Total Revenue, Total Expenditure and Deficit/Surplus of States in Nigeria's Fourth Republic
Source: Author's Computation (2016)

Figure 3.6 showed the trend analysis of Local Government Total Revenue (LTR) and Local Government Total Expenditure (STE) which were also upward sloping curve reflecting the fact that both were increasing on yearly basis. The budget of local government in the fourth republic recorded budget surplus except the years 2000 and 2008.

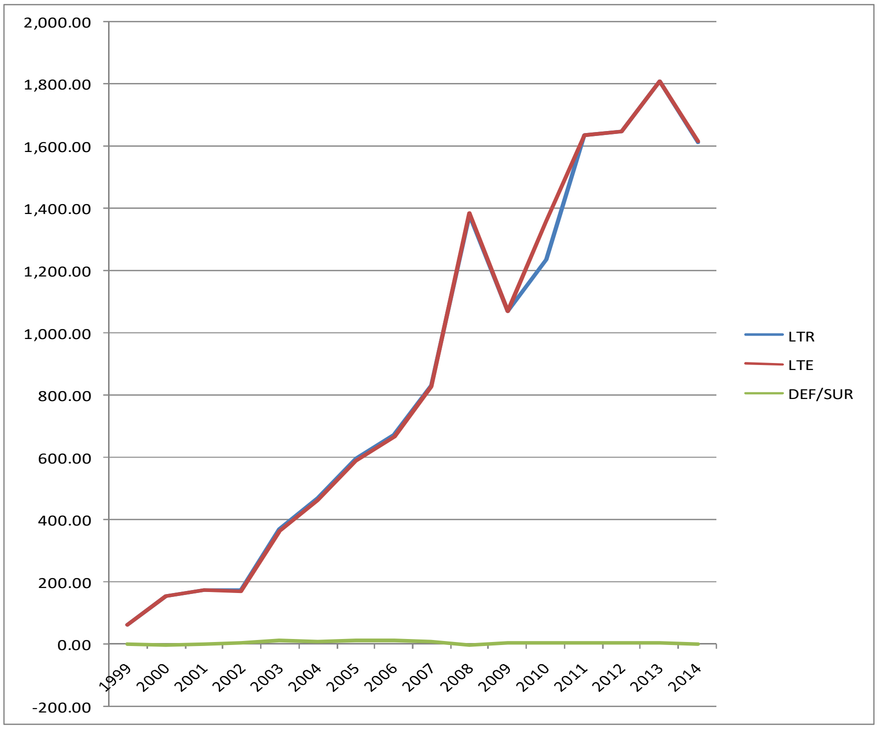

Figure 3.6: Comparative Trend Analysis of Local Governments Total Revenue and Total Expenditure in the Nigeria's Fourth Republic
Source: Author's Computation (2016)

4. Conclusion and Recommendations

This study examined the state of finance of State Governments and Local Governments in Nigeria's fourth republic. Descriptive statistics was employed mainly to analyze the financial operation and management of States and Local Governments in Nigeria's fourth republic. The study found that both the state government and local government were financial depended on the allocation from the federation account before they can meet recurrent expenditure at the expense of their developmental capital projects. The State Government financial managements were characterized by increasing budget deficit while insignificant budget surplus were recorded for Local Governments. The study therefore, recommended the sustainability of alternative sources of revenue apart from the revenue from federation account to sub-nationals in Nigeria.

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