

# The Implications of Intergovernmental Fiscal Relations on the Financial Autonomy of Local Governments in Adamawa State, Nigeria

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**Abstract:** The 1999 Constitution of Nigeria as amended provides that every State in Nigeria shall create and maintain a special account where Local Governments funds from Federation account are deposited, including the 10% State's internally generated revenue. The State is expected to share the revenue among the various Local Governments within her domain for effective service delivery to the grassroots people. This paper sought to evoke information on the effect of State – Local Government Joint Account on the financial autonomy of Local Government Councils in Adamawa State. Data for the study were obtained from both Primary and secondary sources. The study found that the State-Local Government Joint Account operations hinder effective service delivery in Adamawa State. The Fund appropriated to Local Government Councils in Adamawa State from the Federation Account was mismanaged by the State Government, through several means which includes illegal deductions, diversion and undue engagement of Local Governments into partnership projects. The study recommended that, in order to free Local Governments from such exploitation of the Joint Account system, the constitution has to be reviewed to enable Local Governments access their allocation directly from the Federation account.

**Keywords:** Financial Relations, Joint Account, Local Government, Service DeDeliver.

## I. INTRODUCTION

The State - Local Government joint account system as a financial instrument in Nigeria emerged through the 1979 constitution. The 1999 constitution of Federal Republic of Nigeria also recognized the existence of this intergovernmental fiscal relations among the three tiers of government. The establishment of this special account by the constitution was to enhance rapid development at the grassroots as well as prompt provision of adequate social service and ensuring effective supervision of the distribution and allocation of revenue to Local Governments from the Federation account. The constitution stipulated the creation of special State- Local joint account and entrust State with powers to distribute revenue due to Local Government from the Federation account and their own (States) 10% internal generated revenue. This arrangement was made to ensure effective supervision of spending of the funds for service delivery across Local Governments.

Section 7(6) of the Nigerian Constitution as amended makes provision for statutory allocation of revenue to the Local Government councils in a State from the Federation account system into which shall be paid all allocations to the Local Government councils of the State from the Federation Account and 10% of the internally generated revenue of the State Government. Furthermore, Section 162, Subsection 7 States that; “each State shall pay to Local Government councils of a States that “the amount standing to the credited of Local Government councils of a State shall be distributed among the Local Government and in such manner as may be prescribed by the House of Assembly of the State”. Source: 1999 Constitution of the Federal Republic of Nigeria.

The central government having observed all the problems associated with Local Government administration in Nigeria, especially in her bid to achieve the statutory responsibilities, created joint account system to enable the State to supervise the spending of Local Government in Nigeria. This is to ensure that their share in the Federation account is prudently managed. Tonwe (2014) asserted that constitution provisions and efforts were made anticipated to bring a reasonable proportion of national and State government to revenue to the treasury of Local Government to assist them in provision of essential services to the grassroots people. The most painful aspects of this good intention are that, the State serve as impediment and delay in the release of council's allocation from joint account, illegal deductions and undue engagement of Local Governments in to partnership projects.

### *Statement of the Problem*

This paper is a study of the implications of intergovernmental fiscal relations on the performance of local governments in Adamawa State, Nigeria.

The military government and the constitution of the Federal Republic of Nigeria as amended elevated the status of local governments to the third tier of government. However, the management of such fiscal relations often leads to shortage of funds for local governments and intergovernmental fiscal conflict between the lower tiers of governments in many states of the federation (Nwankwo, 2006). These problems did not only exist in the fourth Republic but have been compounded by the 1999 constitution as amended which confers on state

governments enormous powers to ensure the existence of democratically elected local councils under a law. The constitution provides for the establishment, administrative and political structures, sources of finance and functions of such councils across the federation. The same constitution mandates both the state and local governments to maintain a special 'State-Local Government Account Joint' into which all allocations to the local government councils of the state from the federation account are paid (Federal Republic of Nigeria, 1999).

But these constitutional provisions have resulted in increase in the level of state control of local governments finance. The manifestations of state control of local governments finances can be seen in the non-disbursement of the amount standing to the credit of local governments in the state joint local governments account, non-payment of 10% of internally generated revenue of state to local governments, inability of local governments to fund their recurrent and capital expenditures in many States of the federation (Nwankwo, 2006).

There are many studies of intergovernmental fiscal relations across Nigeria but the emphasis of such studies were on the Federal-State governments relations as observed by (Adamolekun, 1983; Ayo, 1985; Dibia, 2004). Little emphasis has been paid on State-Local governments' relations and only few studies have been done in the critical area of intergovernmental fiscal relations and performance of Local governments in Adamawa State. This paper is therefore intends to fill this empirical lacuna.

## II. CONCEPTUAL CLARIFICATION:

### 1. *Financial relations:-*

This refers to the relationship between the different tiers of Government regarding of fund raising power and control over public spending. In Nigeria, the federating tiers are Federal, State and Local Government. Financial Relations involves the core issues of revenue generation and expenditure within the tiers of Government. The financial or fiscal relationship among the three tiers of Government has been contentious over the years. Hence, this poses a challenge for the leadership in Nigeria State and her policy makers to provide an acceptable sharing formula that would guide the fiscal relations among the tiers of Governments in Nigeria. Fiscal Transfer from the Federal Government to the lower levels of Governments are in three phase through loans, grant/aid and revenue sharing. Revenue sharing in particular is used to implement certain policies and to provide incentives for the recipient Government to behave in certain ways and to make them adhere strictly to the conditions attached to the use of funds. Funds are first allocated as indices for revenue sharing. Within the State and two - third of the revenue shared goes to Local Governments and one-third is retained by the State Government (Ojo, 2009:57; Ademolekun, 1983:35; Ebajemito and Abudu, 1999:222).

### *Joint Account:*

It is an account specially opened and maintained by every State Government for the payment of statutory allocation to Local Government from the Federation account and the 10% of the internally generated revenue of the State. This accounts maintained on behalf of the Local Governments by the State. Two kinds of monies are paid in to this account for the use/credit of Local Governments of a State in Nigeria. The first is the share of Local Governments from the Federation account. While the second payment is the State's 10% internally generated revenue. That is all the monies generated internally in a State, its 10% will be paid in to this account to be distributed among Local Governments within the State. Specifically, section 162 (6) stipulates that every State shall maintain a specific account to be called "State Joint Local Government Account" in to which shall be paid all allocations to the Local Government councils of the State from the Federation account and from the Government of the State. This section though did not allow the direct payment of statutory allocation to the Local Governments but recognizes the State as the supervising agent that oversees the distribution and the spending of the funds by the Local Government.

It should be noted that 1976 Local Government reform advocated for State-Local Government Joint Account to enable the State maintain fiscal relations with its Local Government. In a similar vein, Ojugbeli and Ojoh (2014) averred that the issue of Joint Account was clearly mentioned first by the technical committee setup by the Federal Government on revenue allocation in 1976. The technical committee however discovered that Local Governments are not well funded and that the State Governments are not initially providing any funds to Local Governments. It is in the light of these problems that the committee recommended that special Joint Account be opened so that statutory allocation from Federation Account and that of the State's (10%) internally generated revenue can be paid for the benefits of Local Governments while the State distributes and supervises the spending of the funds by Local Governments within their jurisdictions. The articulation of all financial problems of Local Government provided the idea of having a Joint Account system for the unified Local Government system in Nigeria under the supervision of the State Government. (Ojugbeli and Ojoh, 2014) corroborating this view, Omorugi (1985) averse that Joint Account system and its subsequent inclusion in the 1979 constitution was to enable the State Government oversee, monitors and guides Local Government finances.

### *Local Government*

Local Government is a Government at the grassroots level. According to Ojofeimi (2000), the word "Local" connotes that councils are meant for small commodities and the word "Government" means that they have attributes of Government. The concept of Local Government may be seen as segment of a constituent State or region of a nation State,

established by law to provide public services and regulate public affairs within its area of jurisdiction (Ikelegbe, 2005). As king (1988) observes, the Local Government is universally found in modern State, although it goes by various names. Its legitimacy lies in its official tasks to represent the interest or wishes of the Local in habitants and administer to their needs, founded in democratic ideas, it is required that Local Government be given an opportunity to control their affairs at this level especially since this is the point at which interests and welfare are most likely to be directly affected.

However, it is regrettable and unfortunate that a critical survey of Local Governments in Nigeria today shows that, their affairs are been controlled absolutely by the State Government. The reason for the creation of Local Governments has not been availed at the grass-root.

#### *Service Delivery:*

Social service delivery involves tangible and intangible goods and services provided, through the taxes paid by the citizens to Government in order to improve the well-being of the peoples. It also refers to the provision of social services such as portable water supply, repair of Local roads, primary healthcare delivery and cemeteries, intended to alleviate human suffering and enhance the quality of life of the citizens.

Constitutionally, Local Government is saddle with the responsibilities of providing services relating to maintenance of cemeteries, burial ground; homes for the destitute and infirm; markets swage and refuse disposal, streets, drains, other public facilities in Nigeria. They also engage in economic planning and the development of Rural Areas. It is painful to note that Local Governments in Nigeria especially in Adamawa State have failed to live up to expectation in terms of the assigned responsibilities. The recent literature suggests that most Local Governments in Nigeria are grossly undeveloped because of the poor service delivery at the Local levels. (Alao, Osaake and Owolabi 2015; Aluko 2006; Dalhatu 2006; Gboyega 1987)

However, in view of the above affirmation this unpleasant situation is associated to the domineering State-Local Government Joint Account in Adamawa State.

#### *Financial Management:*

Financial Management is an important activity in any given organization. It is the process of planning, organizing, controlling and monitoring financial resources with a view of achieving organizational goals and objectives. It is an ideal practice for controlling the financial activities of an organization such as procurement of funds, accounting, payment, risk assessment as well as other thing related to money.

In other terms financial management is the application of general principles of Management to the financial possessions of an enterprise. If finances are not properly managed Local Governments will faced with challenges that may have severe

consequence on their capacity to deliver effectively goods and services to the people at the grass-root.

It is widely accepted that the poor financial management of State-Local Government Joint Account has adverse effect on the system which resulted the Local Governments with insufficient fund to manage their affairs. It becomes worrisome that even the money sent to Local Governments from the Joint Account is embezzled by some Local Government Chairman as well as other key players in the system. Corroborating this view were Aina (2006), Alikoko (2006), Ejike (2014) who asserted that corruption is one of the greatest impediments of effective service delivery at Local Government Level in Nigeria.

In the Local Government system, it has been a normal thing that the Local Government Council Chairman will always convene a meeting of three major stakeholders in the council after joint allocation account committee. The three major stakeholders and the signatories to Local Government account are Chairman, Director Personnel Management (DPM) and Director Finance (DF).

At times the prepare two vouchers for staff salaries the one to present at the Joint Allocation Account Committee is different with the one for Final Payment of staff salaries. Other collaborators in the corrupt tendencies of the big “three” in the Local Government system are the payroll officers and cashiers who resort to inclusion of frivolous names in the payment voucher for their selfish consumption.

### III. METHODOLOGY

A case study research design was used for this study. The theoretical assumptions about intergovernmental fiscal relations and the performance of local governments necessitated the use of a case study research design in this paper. A case study research design allows the researcher to gain understanding into the world of several groups of stakeholders and discover the phenomenon as seen by participants in the political system, and try to explain why they see it that way (Swanborn, 2010). One of the justifications for the use of a case study research design is its ability to deal with a variety of evidences from documents and interviews with key research subjects. It benefits from the prior development of theoretical assumptions that guide data collection and analysis (Yin, 2009). It is an in-depth investigation from multiple sources and perspectives of research participants that provides in-depth understanding of a specific phenomenon under investigations which in this case is intergovernmental fiscal relations in Adamawa State in particular and Nigeria in Nigeria.

Two different qualitative methods of data collection were used to generate the necessary data for this paper. The use of different qualitative methods of data collection is also for triangulation purposes. Triangulation is important to ensure reliability, and validity of the data due to subjectivity and limitations that may be associated with the use of only one tool of data collection (Yin, 2009). The qualitative methods of

data collection used are interviews with different categories of the research subjects, and the documentary sources. The documentary sources include government publications on intergovernmental fiscal relations in Nigeria among others. Content analysis was used to analyze the collected data from both primary and secondary sources.

#### IV. FINDINGS

##### *Effects of State-Local Government Joint Account on Local Governments in Adamawa State*

- i. *Undue deduction from Local Government Allocation:* The emergence of Joint Account System has led to the deduction of statutory allocation of Local Government in Nigeria by the State Government. The State Government see State-Local Government Joint Account as an opportunity to milk Local Government dry and this has adverse effect on the ability of Local Governments to accomplish their statutory responsibilities. Uzundu (2011) opines that under the State-Local Government Joint Account only salaries and overheads of insignificance funds are release to the Local Government Councils while the bulk of the funds are retained by the State. This practice under-minds Local government to perform their statutory obligations effectively.

The issue of joint account has eroded the financial autonomy of Local Governments as a third tier of Government in Adamawa State. As argued by Adeyemo (2005) Local Government must possess the power to make decision independent of external control within the limited laid by the law.

Similarly, one of the Director Personnel Management (DPM) of Local Government in Adamawa State Central Zone, during the interview he was on the opinion that, the provision of State-Local Government Joint Account has made Local Government Council became addicted to intergovernmental begging; the Local Governments are treated as colonics of the State Government. So also, a treasurer who served in two Local Government Councils affirmed in an interview that Local Government Council.

*have been so financially suffocated through State Joint Local Government Account to the extent that they exist merely as staff salary outpost. The Treasurer who attended technical session of joint Account Allocation committee (JAAC) for two years described the State Joint Account as funnel of corruption for State Government Officials who are at the corridors of Local Government finances”.*

He further said that, the State through the joint account allocation committee (JAAC) deprive statutory allocations to Local Government Councils. He affirm that, State government officials go to the extent of compelling Local Government Chairmen to sign as having collected the full amount standing to their credit in the joint account when in fact nothing of such happened. In the same vein, he also said that some expenses incurred by State Government are charged to the account of

Local Government Councils, especially expenses related to party conventions and etc.

In the views of Bello Imam and Edu (2004:463) believes that the establishment of State Joint Local Government Account “Negates both the spirit and letter of direct funding of Local Government from the Federation Account which could be abused by the paddle deductions from the account for spurious purpose”. Onah (2004:195) affirms the above situation that the State Government not only fail to remit 10% of their internally generated revenue to Local Government as prescribed by law, they also temper with 20% Federal Allocation made to Local Government via the State Joint Local Government Account.”

- ii. *Diversion of Local Government Funds:*

The adverse effect of the diversion of Local Government monthly statutory allocation by the State Government is bitter captured by Aghayere (1997:106) when he “said that State Governments have compounded the financial problem of Local Governments by failing to pass on to Local Governments the Federal allocation that has been passed through them as provided for by section 149 (5) of the Nigerian constitution” in addition to diversion of Local Government funds, State Governments also failed to contribute their own share to the Local Governments as required by section 149 (6) of the same document.

However, evidence from literature shows that academic discourse and research in State – Local Fiscal relations, particularly in respect to joint account is created mainly by the diversion of funds in the special account by the State, delay in remittance of funds to Local Government and at times deliberate with holding of Local Government funds and gross mismanagement of Local Government Funds by the State.

In Nigeria, there have been calls from the academics, concerned citizens, media and political leaders for an amendment of section 162 (6) of the 1999 constitution the nation (2016) in a bid to correct certain perceived mismanagement of Local Government funds in the Joint account. This is because the special joint account has been grossly abused by the State Government and sometimes by greedy Local Government Chairmen who divert monies from Joint Account for personal usage at the expense of service delivery to people at the grassroots level. The invective use of these powers has been commonly identified as the delay factor in the development of Local Governments (Tonwe, 2014). In similar vein, president Buhari in the Nation (2016) observes that the relationship between the States and Local Governments is not a very nice one. He further reveals that:

*The states feel that they own Local Government if they are of the same party it is worse if they are not. This is very serious constitutional problem and unless there is obsolete clarity and transparency the relationship will continue to be exploited against the interest of the ordinary people of the country (The Nation, 2016:32).*

The creation of this account by the constitution was borne out of the need to enhance rapid grassroots development through prompt provision of adequate social service by ensuring effective supervision of the distribution and allocation of revenue to Local Government from the Federation Account.

The constitution stipulated the establishment of the special State-Local Government Joint Account in a bid to entrust the State with powers to distribute revenue due to Local Governments from the Federation account and their own (State's) 10% internally generated revenue so as to ensure effective supervision of the spending of the funds towards rural development. The intention of this account was to ensure that the statutory allocation to the Local government from the Federation account is rightly expended on the implementation of the statutory duties (social services) of the Local Government.

The State is to only act in the capacity of distributing and supervising the use of the funds by the Local Governments and not hijacking or diverting the funds for the State purpose. Section 162 (6), (7) and (8) of the 1999 constitution as amended establishes the special joint account, instructs the State to pay its 10% internally generated revenue into this account and distributes the amount standing to the credit of Local Governments in the State on such terms and in such manner as may be prescribed by the State house of assembly. From the foregoing, the constitution is very clear and straight forward on how State-Local Joint special account should be operated.

The constitution clearly stated that all monies standing to the credit of the Local Government should be distributed to them on terms and prescription of the State legislature. But this law has always been violated by the State Government. In-fact, the State has deliberately refused to remit the 10% of revenue generated internally to Local Governments. Thus, this practice of non-remittance of 10% of the internally generated revenue of State Government to Local Government as well as diversion of Local Governments funds has adverse effect on Local Government Councils in Adamawa State to the extent that some of the Local Governments cannot pay their emolument workers as at when due.

#### *Undue Engagement of Local Government into Partnership Projects*

State Governments in Nigeria use this as an avenue to siphon the statutory allocation meant for Local Governments. Local Governments have become mere appendages of State Government because of the way and manner; the Chairmen of the various Local Governments were selected. They lack the power to question the authority of the State Government. In a nutshell, practically Local Governments are fused into State Governments, though theoretically, it exists as a tier of Government. The State Governments do collect huge amount of money from Local Government fund, at times claiming that it will be used to execute projects. Some of these projects are State Government projects but Local Government is

compelled to have a share in the project through an instrument called State – Local Government Joint Account System.

Evidence has proven that, in Adamawa State the two kilometres of road construction project to each Local Government Areas, in 2007/2008 were paid for by Local Governments. These construction was done in (20) Local Governments; construction of lateral access road/box culverts and ring culverts to slaughter housing. Source: Ministry for Local Government Affairs direct labour. 2014/2015.

Therefore, from the forgoing above statement it has been indicated that the Adamawa State Government engages Local Governments on the project that is supposed to be financed and executed by the State Government.

#### V. CONCLUSION

Based on the strength of the findings of this paper from both primary and secondary data, it has been revealed that the manner in which joint account system is managed has adverse effects on the performance of Local Government councils in Adamawa State. It is equally noteworthy that poor internally revenue generation efforts of Local Governments, non-disbursement of 10% of the internally generated revenue of the State to local Governments as well as over dependence of Local Governments on external revenue are some of the factors that influence the poor performance of Local Governments in Adamawa State in particular and Nigeria in general.

#### VI. RECOMMENDATIONS

In order to ensure proper financial autonomy to Local Government, the followings are recommended:

- i. The section 7 of the 1999 Constitution of the Federal Republic of Nigeria to be amended to relieve the Local Government Councils from apron of the State Government.
- ii. The State-Local Government Joint account to be abolished and allow Local Government to receive their allocation directly from Federation Account.
- iii. The unnecessary deduction of Local Government funds and undue engagement of Local Government into partnership projects should be repealed in order to allow Local Government Councils to discharge their statutory responsibilities effectively.
- iv. The Economic and financial crime commission (EFCC) and Independent Corrupt Practice Commission (ICPC) should intensify their effort on check meeting the operations in respect to Joint Account Allocation Committee (JAAC).
- v. The 10% internally generated revenue of state should be remitted regularly to Local Government Councils as clearly stated by the provision of 1999 constitution respectively.

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