

**THE REVENUE ALLOCATION FRAMEWORK  
AND LOCAL GOVERNMENT SYSTEMS IN  
KANO AND SOKOTO, NIGERIA**

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AND LOCAL GOVERNMENT SYSTEMS IN  
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by

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## **DEDICATION**

This thesis is dedicated to President Muhammadu Buhari GCFR for his relentless public service (from the age of 20 as a second lieutenant in the Nigerian military and elected President at the age of 72) to the Federal Republic of Nigeria. I pray Allah forgive his shortcomings as a leader, grant him good health and more prosperous life.

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## LIST OF ABBREVIATIONS

A-G	Attorney-General
ALGON	Association of Local Governments of Nigeria
CBN	Central Bank of Nigeria
CFRN	Constitution of the Federal Republic of Nigeria
CJN	Chief Justice of Nigeria
ET	Education Tax
FA	Federation Account
FAAC	Federation Account Allocation Committee
FCT	Federal Capital Territory
FGN	Federal Government of Nigeria
FIRS	Federal Inland Revenue Service
HFI	Horizontal Fiscal Imbalance
IGR	Internally Generated Revenue
IMF	International Monetary Fund
JSC	Justice of the Supreme Court
LGJAAC	Local Government Joint Account Allocation Committee
LGs	Local governments
MoF	Ministry of Finance
NA	National Assembly
NBS	Nigerian National Bureau of Statistics
NITDF	National Information Technology Development Fund
NPF	Nigerian Police Force
NWLR	Nigerian Weekly Law Report
OAGF	Office of the Accountant General of the Federation
Ors.	Others
PIT	Personal Income Tax

PPT	Petroleum Profit Tax
RMAFC	Revenue Mobilisation Allocation and Fiscal Commission
SC	Supreme Court
SIEC	State Independent Electoral Commission
SJLGA	State Joint Local Government Account
SWF	Sovereign Wealth Fund
VAT	Value Added Tax
VFI	Vertical Fiscal Imbalance
WB	World Bank

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# **KERANGKA PENGAGIHAN PENDAPATAN DAN SISTEM KERAJAAN TEMPATAN DI KANO DAN SOKOTO, NIGERIA**

## **ABSTRAK**

Persekutuan Nigeria telah berkembang selama beberapa dekad. Sistem persekutuan tersebut telah diceroboh, dizalimi dan dicabar serta penuh dengan konflik sejak dari awal. Hal ini dapat dikaitkan dengan kurangnya sifat saling mempercayai dalam kalangan pelbagai kumpulan dalam persekutuan, dan yang lebih penting lagi kurangnya kesefahaman dalam menentukan rangka kerja peruntukan hasil. Justeru, usaha mencari sistem pembiayaan yang sesuai telah menjadi tumpuan utama sepanjang kewujudan negara ini. Walaubagaimanapun, dengan kembalinya sistem pemerintahan sivil pada tahun 1999 sekali lagi telah menyalakan sinar harapan untuk mewujudkan sistem persekutuan yang cekap dan adil yang akan meneguhkan keyakinan negara. Malangnya, tempoh tersebut telah menyaksikan keruntuhan pelbagai struktur tadbir urus, terutamanya kerajaan tempatan yang dianggap sebagai bidang kuasa yang paling hampir dengan rakyat marhaen. Memandangkan situasi yang menyedihkan ini serta masalah structure yang membingungkan kerajaan tempatan, maka kajian ini memberi tumpuan dalam menerangkan bagaimana rangka kerja peruntukan hasil yang sedia ada dapat memberi kesan kepada sistem kerajaan tempatan di Nigeria. Kajian ini menggunakan pendekatan penyelesaian politik, dilengkapi dengan analisis perbandingan sejarah yang akan menjadi penyumbang utama kepada hubungan fiscal dan tadbir urus antara kerajaan Nigeria. Oleh itu, kajian ini merangkumi enam belas tahun (2003 hingga 2019); menjadi satu-satunya tempoh paling lama setakat ini, Nigeria telah menyaksikan peralihan awam yang lancar dan tidak terganggu sepanjang sejarah politik di negara tersebut. Berdasarkan kajian kes



daripada dua factor, data yang diperoleh daripada wawancara kualitatif dan juga dokumen rasmi, analisis itu menggambarkan implikasi rangka kerja peruntukan hasil dari segi struktur, pengurusan kewangan, kapasiti kakitangan dan struktur kerajaan tempatan di Nigeria. Secara spesifik, hal tersebut menunjukkan bahawa segala yang berkaitan dengan kerajaan tempatan berada dalam bidang kuasa kerajaan negeri; dan menitik beratkan bagaimana penyelesaian politik Nigeria dapat menghalang beberapa siri percubaan oleh kerajaan perpesekutuan untuk mengkaji semula rangka kerja dan sistem kerajaan tempatan. Oleh yang demikian, pengaruh relative daripada kerajaan negeri telah membentuk keupayaan dan pengaruh mereka dalam mempengaruhi hubungan fiskal, terutamanya berkaitan kerajaan tempatan. Akibatnya, kerajaan-kerajaan negeri dengan sewenang-wenangnya terus mencero boh, melanggar serta menundukkan kerajaan tempatan, maka terhasil satu siri kawalan sewenang-wenangnya yang menghalang keupayan mereka untuk menunaikan tanggungjawab yang diberikan, kebergantungan yang berlebihan terhadap permindahan berkanun yang telah dirampas oleh kerajaan negeri, kakitangan yang pincang, kemerosotan pemerintahan sendiri yang demokratik, ketidakstabilan majlis kerajaan tempatan serta kepincangan kepimpinan tempatan. Sehubungan dengan itu, kajian ini mengesyorkan semakan semula rangka kerja memandangkan perubahan social, ekonomi dan politik negara yang ketara. Kajian ini juga menawarkan pengubahsuaian yang relavan bagi mengawal selia hubungan negeri-tempatan, khususnya dari segi operasi dan pengurusan akaun Bersama.

# **THE REVENUE ALLOCATION FRAMEWORK AND LOCAL GOVERNMENT SYSTEMS IN KANO AND SOKOTO, NIGERIA**

## **ABSTRACT**

Nigeria's federation has been evolving for many decades. From its inception, the federal system had been sloppy, battered, contested, and conflict-ridden. These have been attributed to a lack of mutual trust among the diverse groups within the federation and, most importantly, a lack of consensus on the revenue allocation framework. Thus, the search for an appropriate financing system took centre stage throughout the country's existence. However, the return to civil rule in 1999 once more ignited the hope for a functional and appropriate federal system that would set the country's treacherous experiences straight. Alas, the period further witnessed the severe weakening of various governance structures, particularly the local governments, which were adjudged to be the closest unit of authority to the citizens. In view of these, the study examined how the existing revenue allocation framework affects the local government system in Kano and Sokoto states of Nigeria, given the distressing situation and structural problems bedevilling local governments. The study adopted the political settlement approach, complemented by comparative historical analysis, to develop key contributions to Nigeria's intergovernmental fiscal relations and governance. Hence, the study covers sixteen years (2003 to 2019); being the most prolonged period, Nigeria has witnessed smooth, uninterrupted civilian transitions throughout the country's political history. Based on a case study of two states and data obtained from qualitative interviews and official documents, the analysis illustrates the implications of the revenue allocation framework on the structure, financial management, personnel capacity, and the structure of local governments. Specifically,

it demonstrated that everything relating to local governments is within the purview of the state governments and highlights how Nigeria's political settlement restrained the series of attempts by the federal government to review the framework and the local government system. Thus, the relative influence of state governments shaped their capabilities and influence in influencing fiscal relations, notably regarding local governments. Consequently, the state governments, with impunity, have continued to encroach, infringe, and subdue local governments, resulting in a series of arbitrary controls that inhibit their ability to discharge their assigned responsibilities; overdependence on statutory transfers, which the state governments hijacked; incapacitated personnel; a decline in democratic self-government; unstable local government councils; and a dearth of local leadership. Therefore, the study recommends the review of the framework, given the country's significant social, economic, and political changes. It offers relevant modifications for regulating state-local relations, especially in the operations and management of the joint account.

## CHAPTER 1

### GENERAL INTRODUCTION

#### 1.1 Introduction

Nigeria's federation has been evolving for many decades. Since 1954, the federation has grappled with distress and persistent agitations that have threatened the country's underlying principles of existence as enshrined in the constitution: to live in unity and harmony as one indivisible and indissoluble sovereign nation, promoting good government and welfare of all persons on the principles of freedom, equality, and justice for the purpose of consolidating the unity of the people (CFRN, 1999).

The federation, from inception, has been sloppy, battered, contested, and conflict-ridden. This is attributed to not only a lack of mutual trust among the diverse groups that make up the federation but, most prominently, a lack of consensus on the revenue allocation framework (see Elaigwu, 2000; Ahmad & Singh, 2003; Agbaje, 2004; Abutudu, 2010; Arowolo, 2011; Venessa, 2012; Akpan, Nwokah, & Andem, 2018). Thus, throughout the almost 64 years of federal experience in Nigeria, the federal framework has not been effective in managing public affairs, particularly fiscal relations.

Therefore, the search for an appropriate financing system took centre stage in Nigeria's fiscal relations even before independence in 1960. The series of revenue allocation frameworks adopted and discarded over time suggests Nigeria's contentious nature of intergovernmental fiscal relations. Thus far, some of the notable revenue allocation frameworks include the Chick Commission (1953), Raisman Commission (1958), Binns Commission (1964), the Federal Military Decree 15 (1967), Dina Commission (1969), Aboyade Commission (1977), Okigbo Commission (1980), the

National Revenue Mobilisation Allocation and Fiscal Commission (1989), the Revenue Mobilisation Allocation and Fiscal Commission (2002), and the Revenue Allocation Act (2004). Accordingly, all the national and constitutional conferences in the country did a stint aim of modifying the revenue allocation framework.

However, at the return to democratic governance in 1999, there were lofty expectations for a functional and appropriate federal system that would set straight the country's treacherous experiences. The citizens expected a federation that would ensure equal access to public services irrespective of their places of residence, accommodation of diversity, individual and collective rights and economic prosperity for the federating units (see Aghalino, 2009; Adejumobi, 2010; Mohammed, 2012). Alas, the return to democratic governance further witnessed the severe weakening of various governance structures, particularly the local government, adjudged to be the closest unit of authority to the citizens. Vambe (2018), lamented the efficiency and effectiveness of local governments in performing their constitutionally assigned responsibilities, especially since 1999. Thus, the local government system has become the subject of national debate among scholars and practitioners. Hence, several studies by World Bank (2002), Akindele, Olaopa, and Obiyan (2002), Asaju (2010), Daniel (2012), Wilson (2013), and Abdulhamid and Chima (2015) observed the dwindling performance of local governments in Nigeria as democratic institutions and grassroots institutions for service delivery.

Given this, the study examines the revenue allocation framework's effect on the local government system in Nigeria. Thus, it investigates the roles and performance of relevant institutions responsible for operating the revenue allocation framework and the implications on Nigeria's local government system from 2003-2019.

## **1.2 Statement of the Problem**

Revenue allocation is the most controversial issue in federal systems. However, it is even more controversial in federations where natural resource endowments are partially located, and revenue mobilisation is centralised with a perceived lopsided allocation framework (Boadway & Shah, 2009). Moreover, federations do contend with vertical and horizontal fiscal imbalances. In all federal systems, Watts (1996:53) explained that these imbalances are frequently inevitable due to a mismatch between available revenues and expenditure responsibilities of various levels of government. As a result, lower levels of government typically do not generate enough revenue to fulfil their mandated responsibilities. Thus, the resulting fiscal imbalances necessitate instituting a revenue allocation system.

In Nigeria, the Federation Account serves as the primary source of revenue for all three tiers of government (federal, state and local). In contrast to the subsequent allocation of the statutory revenues to the local governments, the sharing of the Federation Account is considered fair and transparent. There have therefore been worries about state governments failing to fulfil their obligations, particularly with regard to the flow of statutory distributions to the local governments, ever since the famous Supreme Court decision (see *A-G Ogun v. A-G-F* 2002, 10, NWLR 232) that ruled direct allocation by the Federation Account Allocation Committee to the respective local governments as unconstitutional. For instance, Justice Niki Tobi, Justice of the Supreme Court (JSC), acknowledged that ‘it is a notorious fact that there are leakages here and there in local governments funds. Leakages caused by people who either administer the system or oversee how it is being used (see *A-G Abia & 2 Ors. v. A- G- F & 33 Ors.*).

In the same vein, substantial studies (Akindele, Olaopa & Obiyan, 2002; World Bank, 2002; Khemani, 2005; Mustapha, Charles, Jean-Pierre & Biram, 2008; Boadway & Shah, 2009; Arowolo, 2011; Bello, 2013; Andrew, Uyanga, Sofi, David & Varsha, 2016; Festus & Mustapha, 2017; Doho, Ahmed & Umar, 2018) revealed serious challenges local governments are experiencing in accessing their statutory revenues. In effect, there is a fundamental problem of the lack of local governments say on what the state governments distribute to them as their share of statutory revenue, thereby grossly affecting their performance and status. The statutory revenue is one of the sources of public revenue that accrues to the government to attend to its assigned responsibilities. However, the statutory revenue is distinct from other revenue sources because its allocation to the relevant beneficiaries is backed by law as their entitlement from the revenue generated within specified jurisdictions.

Consequently, the local government system in Nigeria is in a distressing situation, with contradictions and uncertainties. Local governments in Nigeria are appalling, with many only boasting of paying salaries. Service delivery has degenerated partly due to the disabilities of local governments to initiate and execute policies without recourse to state governments, to the extent there are several agitations for granting them autonomy. For instance, in the last three constitutional amendments embarked by the National Assembly, the issue of granting local governments autonomy was at the forefront. Still, it could not scale through due to the constitutional requirements for amending the constitution in Nigeria. Therefore, given their abysmal performances, it is apparent that local governments lack the capacity to provide essential public services, have issues such as redundant unproductive staff and are financially handicapped. These prompted questions on why the local government system appears dreadful? Does the revenue allocation framework guarantee local

governments' ability to perform efficiently and effectively for socio-economic and political development?

There is insufficient research on the trends in the distribution of revenues to the local governments or the use of such funds by the state governments, notwithstanding broad beliefs that states rarely release the funds appropriately. Determining the trends in the revenue allocation to local governments and how this affects their viability is why it is important to look at how states handle the joint account. Regrettably, studies on these, don't provide a through breakdown of how the statutory revenues are distributed. Few studies, such as Akindele, Olaopa, and Obiyan (2002), discussed the mismatch between local governments' assigned responsibilities with available revenue. Ukwueze (2010) examined local governments' overdependence on the Federation Account's statutory allocation. Also, the work of Adelabu (2010) also attributed a lack of funds, corruption, and bad governance to the challenges of service delivery by local governments in Oyo State. However, Ben-Caleb, Madugba, Ajibode, and Ben-Caleb (2021) supported the agitation for granting local governments autonomy.

Only Adelabu (2010) studied the impact of available revenues on service delivery. Due to the ongoing and growing issues and complaints from various stakeholders regarding the transparency and adherence to the existing provisions in the distribution of statutory revenues by the state governments, this study examined the effects of the existing revenue allocation framework on the local government system. The President's 2015 inaugural speech, in which he criticised the management of the joint account, contained the most notable lamentation:

Elsewhere relations between Abuja and the states have to be clarified if we are to serve the country better. Constitutionally there are limits to the



powers of each of the three tiers of government, but that should not mean the federal government should fold its arms and close its eyes to what is going on in the states and local governments. Not least the operations of the local government joint account. While the federal government can not interfere in the details of its operations, it will ensure that the gross corruption at the local level is checked. As far as the constitution allows me, I will try to ensure that there is responsible and accountable governance at all levels of government in the country. I will not have kept my trust with the Nigerian people if I allow others to abuse theirs under my watch (President Buhari, 2015).

Nevertheless, in 2021 during an exclusive interview with Arise News channel, the President admitted state governments had virtually killed local governments, and the situation was not good for the federation (Arise News, 2021). In view of these, the study examined the effect of the existing revenue allocation framework on the local government system in Nigeria. Specifically, it focuses on how the framework affects local governments' structure, financial management, capacity and service delivery.

### **1.3 Research Questions**

- i. How consistent is the distribution of statutory revenues to local governments with the existing revenue allocation framework in Kano and Sokoto states?
- ii. How does the existing revenue allocation framework encourage coordination and cooperation between Kano, Sokoto states and their respective local governments?
- iii. What are the roles of the relevant institutions in the management of revenue allocation to local governments in Kano and Sokoto states?
- iv. How does the existing revenue allocation framework affect local government systems in Kano and Sokoto states?

### **1.4 Objectives of the Study**

- i. To determine whether the distribution of statutory revenues to local governments in Kano and Sokoto states is consistent with the existing revenue allocation framework.
- ii. To examine if the existing revenue allocation framework encourages coordination and cooperation between Kano, Sokoto states and their respective local governments.
- iii. To assess the roles of the relevant institutions in the management of revenue allocation to local governments in Kano and Sokoto states.
- iv. To determine how the local government system in Kano and Sokoto states is affected by the existing revenue allocation framework.

### **1.5 Significance of the study**

The renewed interest in decentralisation has rekindled interests in the role of local governments in the modern political system. However, several factors have been explained for their dysfunctional governance. For instance, there is a general view that local governments' assigned responsibilities do not commensurate with their financial capacity. More aptly, the transfer of responsibilities from the central government to local governments has not been accompanied by the adequate transfer of resources (Catherine, 2014; see also Pablo, 2005). Therefore, in the case of Nigeria, as in many other countries, especially developing countries, local governments depend hugely on intergovernmental fiscal transfers from the central government in the form of statutory revenue sharing. However, despite several studies on federalism and intergovernmental fiscal relations in Nigeria, research into the question of the effect of the revenue allocation framework on local government system in Nigeria is considerably scarce. Dagwon (2013) and Koko (2017) submit that several studies were

conducted on how revenue is shared within the federal government, state, and local governments in Nigeria. But these studies often focus on the controversies and agitations, especially on resource control, thus negating to examine the effect of the revenue allocation framework on governance. Hence the need for this study to fill in the serious gap of insufficient data on distribution of statutory revenues to local governments.

Therefore, this study is geared towards making a modest contribution to the current debate on the challenges local governments face in discharging their assigned responsibilities. The essence is not just to provide insights on the trends on the distribution of revenue to the local governments by the states, but also to provide policy suggestions on the possible solutions towards resolving the problems arising from the existing revenue allocation framework and the way forward from the ongoing debate, agitation for restructuring, and granting local governments autonomy in Nigeria. Hence, the study hopes to guide subsequent legislation on the revenue allocation framework and constitutional amendments.

Lastly, the study anticipates improving the existing literature on fiscal federalism, decentralisation, and intergovernmental relations in Nigeria, which is virtually scanty and inadequate compared with the studies on the sharing of the Federation Account. Thus, it hopes to serve as reference material for understanding revenue allocation in Nigeria and comparative studies on fiscal federalism, giving the link established on fiscal federalism and local government performance. Also, it will further improved the growing application of the political settlement approach, especially in developing countries.

## **1.6 Scope and limitations of the Study**

**Period of coverage:** the study covers a period of sixteen (16) years, which is from 2003-2019. The selection of the period is justified because it was the only most prolonged period so far; Nigeria has witnessed smooth, uninterrupted democratic transitions throughout the country's political history.

**Contextual coverage:** the study focused on the allocation of statutory revenue (comprising the FA including the value-added tax VAT and states' revenue) by the state governments to local governments as enshrined by the revenue allocation framework. Thus, the focus was on the trends of distribution of statutory revenue by the state governments to the local governments, appraisal of the role of the relevant institutions (such as the National Assembly, RMAFC, Houses of Assembly of State, the Ministry for Local Government/Local Government Service Commission, and the State Independent Electoral Commission). Hence, an extensive discussion on the implications of the existing revenue allocation framework on the local government system in Nigeria.

**Geographic coverage:** the issues raised in the statement of the problem and the research questions for this study are glaringly systemic issues and affects the 774 local governments in Nigeria. The issues are systemic in the sense that vast literature identified challenges confronting local governments in Nigeria, such as dwindling performance; the paucity of funds; and overbearing dominance, excessive control, and encroachment by the state governments. Furthermore, fiscal transfers in Nigeria is guided by an unvarying law, except for where the House of Assembly of State make provisions for their respective states, even that it is required to conform with the constitutional provisions and the existing Act.

Therefore, the study was conducted in the North-West geopolitical zone of Nigeria (see section 3.4 for details). Limiting the analysis to this zone is held not to in any way be a hindrance to achieving the stated objectives of the study. Similarly, the results to be obtained will significantly offer suggestions to the ongoing debates and the need for the review of the revenue allocation framework, restructuring the federation since the existing federal arrangement has not fully addressed the inherent imbalance mainly associated with revenue allocation framework, the poor performance of the local governments, retaining or otherwise of the State Joint Local Government Account, local government autonomy, and the viability of the local government system in Nigeria. It will also most significantly proffer suggestions for constitutional amendments and revisiting the revenue allocation framework.

Since 1996, Nigeria was divided into six geopolitical zones for political purposes and conveniences significantly in the allocation of political appointments, especially at the federal level, to ensure equitable representation. Hence, the concept did become immensely popular and had been used to analyse socio-economic and political issues in the country. Therefore, the North-West geopolitical zone comprises seven (7) states that is Jigawa, Kaduna, Kano, Katsina, Kebbi, Sokoto, and Zamfara.

Regarding the limitations, this study was exceptionally constrained on how best to synchronise the scope. While the core focus is revenue allocation framework and local government system, it has proven challenging to unbundle this, isolating it from internal revenue generation, state-local government relations, and the role of institutions and revenue allocation. Relatedly, the study was constrained in the selection of a theoretical framework. Because prominent theories on fiscal federalism are dominantly Eurocentric, relying on any of them extensively to be applied for this study is extremely difficult, given that each federal system is uniquely designed given

its peculiar historical, traditions and political nuances. Thus, in order to identify their relevance and applicability, a series of theories deemed necessary to be relevant, especially in context and spatial coverage, had to be undertaken.

Another significant challenge was the unavailability and hindered access to data, especially at the state government levels. For instance, records on borrowing and training of personnel have been too difficult to get, especially on loans incurred by the state governments on behalf of their respective local governments and personnel sent for training and the nature of training given. These notwithstanding, the study proceeded through the entire research process and resorted to interviews in the absence of documentary sources. Specifically, in addition to their cognate experiences in the fields, expert interviews helped provide relevant insights to lessen these limitations.

## **1.7 Chapter Scheme**

The study is organised into seven chapters: chapter one is the general introduction, contains an introduction, problem statement, research objectives and questions, significance and scope of the study, and definition of terms. Chapter two includes a literature review and discussed the main concepts and arguments regarding federalism and revenue allocation. The chapter is subdivided into three sections. Section one covers the theoretical review, and section two focuses on the empirical literature, while section three presents the theoretical framework. Chapter three dwelt on methodology; it consists of research design, sample and sampling technique, details of the case study area, method of data collection and analysis. Chapter four detailed the historical evolution and development of federalism, fiscal federalism, and the transformations local governments undergo in Nigeria. Lastly, chapters five and six concentrated on data analysis in which the questions and assumptions raised in chapter

one were answered and analysed. Then, in chapter seven, the summary of significant findings, conclusions and possible recommendations were presented as the concluding chapter.

## **1.8 Definition of Terms**

The following terms, revenue allocation framework, local governments (LGs), revenue allocation, Federation Account (FA), and Institutions, are germane to this study; hence, the need to provide an overview of what they stand for in the research.

**Revenue Allocation Framework (RAF):** the revenue allocation framework is a series of designed structure to guide intergovernmental finance in Nigeria. Specifically, it consists of the several provisions in the form of constitution, valid laws passed by the National Assembly and State Assemblies. Thus, revenue allocation and distribution in Nigeria is guided by the provisions of the 1999 Constitution, the Allocation of Revenue (Federation Account, etc.) Act of 1982 as amended by Decree No 106 of 1992, and the local government laws enacted by the Houses of Assembly of State. These collectively guided the processes of revenue allocation and distribution to the local governments in Nigeria.

**Local Governments (LGs):** government at the local level exercised through representative council established by law with substantial control over local affairs, and to exercise specific powers within defined areas, provides services, and determines and implements projects to complement the activities of the states and federal government.

**Local Government Councils:** the term is used when officials of a local government are brought into the councils through election.

**Revenue Allocation:** revenue allocation refers to the processes, procedures through which revenues are shared between and among levels of government. It encompasses the sharing of revenue between levels of government for the purpose of getting more revenues to lower levels of governance to ensure each level is allocated a predetermined share of the revenue from a given tax source.

**Statutory allocation:** statutory allocation refers to the public revenue that accrues to the government to deal with its assigned responsibilities. However, the statutory revenue is distinct from other revenue sources because its allocation to the relevant beneficiaries is backed by law as their entitlement from the revenue generated within specified jurisdictions.

**Institutions:** institutions are rules, enforcement characteristics of rules, and norms of behaviour that structure repeated human interaction (North, 1989). Thus, institutions can be formal or informal. The former refers to the codified rules and regulations that structure incentives in human interaction, whether political, economic or social. While the latter infers values held by societies in the form of customs or traditions which impose constraints on the adherents. Therefore, formal institutions considered for this study includes the Constitution, the National Assembly, Houses of Assembly of State, the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC), Ministry for Local Governments, Local Government Service Commission (LGSC), State Independent Electoral Commission (SIEC), and Joint Local Government Account Allocation Committee (LGJAAC).

**Federation Account (FA):** According to section 162 (1) of the 1999 Constitution (as amended), the Federation Account refers to that account into which shall be paid all revenues collected by the government of the federation, except



proceeds from the personal income tax (PIT) of the armed forces of the federation, the Nigerian Police Force, the ministry or department of government charged with the responsibility of foreign affairs and the residents of the Federal Capital Territory (FCT) (CFRN, 1999).

The revenue due to the Federation Account refers explicitly to any income or return accruing to or derived by the government of the federation from any source and includes: any receipt, however, described, arising from the operation of any law; any return, however, described, arising from or in respect of any property held by the government of the federation; any return by way of interest held by the government of the federation in any company or statutory body (CFRN, 1999).

Therefore, the following constitute the bulk of revenues remitted to the Federation Account: crude oil and gas exports; domestic crude sales; petroleum profit tax (PPT); royalties as components of oil revenues; while the non-oil revenue components include customs and excise; education tax; custom levies; VAT; federal government independent revenue; and the National Information Technology Development Fund (NITDA) (Koko, 2017).

## CHAPTER 2

### LITERATURE REVIEW AND THEORETICAL FRAMEWORK

#### 2.1 Introduction

This section provides the theoretical foundations for the study. It is intended to provide a review of both theoretical and empirical literature related to this study.

#### 2.2 Empirical Review

Empirical literature on local governments abound both in developed and developing countries as key institutions of governance that bring government and governance closer to the people, promote citizens participation in governance, and provide public goods to the citizens. A number of these studies, however, presented mixed findings on the performance of local governments in fulfilling their essence as a grassroots institution of governance. Similarly, a proportionate number of studies had revealed a plethora of challenges faced by local governments and their inability to function efficiently and effectively. For instance, in the case of Nigeria, several studies showed a negative performance of the local governments (see Daniel (2012), Wislon (2013), Abdulhamid & Chima (2015)). The failure is often attributed to several factors ranging from insufficient capacity, low revenue, centralising trends of the higher levels of government etc. however, hardly a study has been conducted to specifically examine the trends of distributing statutory revenue by the state governments to their respective local governments. The study examined the implications of the trends on democratic governance and the local government system. What follows is a review of some empirical literature to prove this assertion.

### **2.2.1 Local Government Revenues**

Khemani (2003) examined agitations for increased revenue allocation to lower levels of government to their performance in Nigeria. The aim was to proffer contributions regarding which level of government is best suited to undertake what expenditure responsibilities and how these should be financed (Khemani, 2003: p.1). The analysis of the study dwelt on key areas considered to be the essential services for the wellbeing of the local populace. These services include primary education, primary health care, potable water and sanitation, and local roads. To this end, the study observed that state governments had appeared to take over the actual delivery of these essential services to ensure their delivery at the expense of the local governments because of what they termed severe capacity constraints at the local levels. In support of the states, Khemani (2003: p.13) revealed that in 1999, local governments spent only 8% of their capital budget on health and education. The study, therefore, considered as risky the current trend of allocating revenues to the local governments without consideration of their real capacities and accountability. Thus, it recommends for a local government system that will mainly serve as agents of the states.

In a study by Akindele, Olaopa and Obiyan (2002) on local government finance in Nigeria, the authors pointed to fiscal issues as the most daunting challenge facing public institutions, especially the local governments. In trying to justify and explain how this constitutes a fundamental challenge to local governments, the study revealed the over-dependence on statutory allocations by the local governments on the higher levels of government, tax evasion by the local citizens, creation of non-viable local government councils, inadequate revenue, and restricted fiscal jurisdictions as some of the contributing factors. Furthermore, the study highlighted the compounding problems created by the 1999 constitution, especially to the local governments,

precisely the issue of assigning the states with the residual function of controlling the local governments. Yet, it identified a mismatch between their assigned responsibilities with available revenue and the flow of financial revenues as the most recurrent problems of Nigeria's local governments.

Thus, the study concludes that to attain a healthy fiscal stance for local governments in Nigeria, responsibilities and functions must be allocated in accordance with their taxing power and ability to generate funds internally. Also, local governments must be given full freedom to operate with appropriate guarantees and protection. Besides, there should be a review of the revenue allocation formula, granting fiscal autonomy and fiscal discipline and making local governments responsive, responsible, and accountable to the people. It also recommends further studies to examine ways and means of constitutionally strengthening local governments to perform their numerous functions most effectively.

However, the significant lapses with these studies (Khemani 2003, Akindele, Olaopa & Obiyan 2002) are their inability to highlight efforts or otherwise of the local governments in utilising their revenue-generating powers and the extent to which they fully raised those revenues. Also, and more importantly, apart from the mere mentioning of the flow of financial revenues and upward review of local governments share of the Federation Account to at least 35 to 40%, the studies failed to examine the extent to which and whether the statutory revenues due to local governments do get to them.

Aragon and Gayoso (2005) examined the causal relationship between intergovernmental transfers and fiscal efforts in Peruvian local governments (municipalities). According to the study citing Oates (1972), intergovernmental

transfers play a substantial role in reducing inequality, assuring a minimum level of local public goods, and incentivising efficiency in allocating resources. In addition to these principles, conditions in the transfer assignment scheme should be included that considers local fiscal effort as an indicator. Thus, the *Foncomun* is the most crucial transfer in Peru, accounting for 35% of the local governments' budget and is very volatile because it is mainly funded by VAT. Also, an additional transfer is made to LGs receiving *Foncomun* transfer less or equal to 25,000 soles per month, which is by law meant to be used for investment. The study found a negative relationship between transfers and local fiscal effort. Thus, it recommends incorporating an effort related component to equalisation transfers to reduce the adverse incentives of the transfer.

Schoeman (2011) analyses the fiscal performance of local governments in South Africa in terms of own revenue collection and their sustainability. The study revealed that one-third of the local governments in South Africa largely depend on revenue allocation from the upper levels of government for financing capital expenditure and recurrent expenditures, hence generating less than 20 % of their recurrent expenditures from own sources. This, nonetheless, the study highlighted some of the most relevant challenges of local government finance in South Africa that are almost applicable to many local governments in the world as depicted by the literature. These challenges include the increasing reliance on revenue allocation from the central governments, poor management practices; poor quality of data and inconsistency on intergovernmental transfers to local governments; the proportionally high ratio of recurrent expenditure to capital expenditures. Thus, it recommended for significant improvement by the local governments in raising their revenues.

Ukwueze (2010) examined local governments and fiscal federalism in Nigeria. The study established overdependence of the lower levels of government on the

allocation or sharing from the federally generated revenue. The sharing of which is regulated by the revenue allocation framework. Also, it pinpoints the heightened contentions on the revenue allocation compared to responsibility assignments and tax jurisdictions. Furthermore, the study highlighted how subsequent reforms had substantially withdraw much of the institutional autonomy granted local governments. For, the degree of local autonomy that exists at any time has critical implications for the ability of the local governments to generate and utilise revenue for development purposes. It further argued the inadequacy of the internal source of revenue to the local governments; and their inability to think out some possible alternative sources of revenue. Accordingly, their expenditures often surpassed the available revenue owing to the great gulf between their needs and their fiscal capacity (Ukwueze, 2010: p.189). Consequently, the study argued that this trend constrained local governments from performing their statutory functions and responsibilities. Thus, it recommended the need to grant local governments more powers in revenue generation and spending capacity in order to have development trickling down to the grassroots.

Complementary to this, Ben-Caleb, Madugba, Ajibode and Ben-Caleb (2021) investigate stakeholder's perspectives on the effect of financial autonomy on rural development in selected local governments in Ogun state South-West Nigeria. The study discussed rural development challenges in Nigeria and attributed those challenges to a lack of financial autonomy at the local government level. Thus, deploying quantitative techniques, the study established that financial autonomy accelerates rural development in the local governments of Ogun state. It pointed that local governments will be better positioned to contribute to the national economy if their resources are managed with little or no interference from the state governments. Thus, it recommends enacting legislation that will give autonomy to local governments

to generate and manage their financial resources without undue meddling by the other levels of government, and hence engender better service delivery and rural development.

Meanwhile, Oladele (2020) examines the legal implications of the state government's control over Internally Generated Revenue of Local Government Councils in Oyo state. In doing that, the paper contrasts relevant sections of the local government's laws in the state with the relevant sections of the 1999 Constitution, the Allocation of Revenue (Federation Account, etc.) Act, and found contradictions and inconsistencies. Thus, the continuous practice of section 7 of the state local governments law curtailed the internal revenue generation effort of the local governments. The paper, therefore, recommends to the local governments in the state to take legal action. Also, it suggests granting autonomy to the local governments to control their revenues and utilise them judiciously.

### **2.2.2 Local Government and Service Delivery**

Okechukwu (2012) examined the impact of ethical leadership on local government administration in Nigeria. The study focused on how ethical principles such as honesty, participation, accountability, transparency, and the rule of law inspire local governments to harness resources for socio-economic development and improved governance. However, the study established that the local government system has failed despite the huge amount of funds allocated. Hence, it identified factors responsible for the failure of local governments in Nigeria. Essentially, it identified a lack of autonomy, state governments' control over the State Joint Local Government Account, and dishonesty and corruption within the local government system. Thus, the study argued public officials lacked the integrity to discharge their

responsibilities, hence affecting public service delivery. Therefore, the study recommends constitutional amendments to grant local governments autonomy, thereby inhibiting state governments from withholding local governments funds and suspending elected local governments councils. It also suggests instituting a system in which local governments have their account, control, and manage by the council.

Similarly, Vambe (2018) investigated the implications of state-local relations on service delivery at the local government level. The article underscores the challenges of local governments in service delivery as opined by many scholars and practitioners. It identified lack of finance, autonomy and qualified personnel as several factors for this apparent failure. Thus, he contends that local governments have not been able to maximise their potentials as third tiers of government due to the actions of state governments in interpreting the ambiguous provisions of the 1999 Constitution. To this end, the low level of development at the grassroots is essentially due to the skewed state-local government relations. Hence, it recommends that section 7 of the 1999 Constitution be reviewed to precisely define the oversight powers of state governments over local governments to prevent the arbitrary dissolution of local government councils. Also, local governments allocations should be contained in the consolidated account and be directly disbursed by the federal government under the supervision of the National Assembly.

In another study by Kolawole (2017), focused on manner with which state governors contributed in the failure of local governments in Nigeria. The paper highlights abuse of the local governments by the state governments through non conduct or delay of elections and illegal infiltration into local governments funds. Thus, it recommends for a constitutional amendment that will compel state governors to shed their deep involvement in local governments affairs. Also, local governments



should be granted autonomy with minimal oversight functions by higher levels of government. There must be efforts to contend more with the issue of corruption at all levels of government.

Grindle (2007) examined thirty randomly selected local governments (municipalities) in Mexico and sought to assess how they cope with new responsibilities and resources in an era of decentralisation. The study focused on the impact of four factors on the capacity of local governments to carry out their duties efficiently and effectively and in response to citizens needs and demands. The four elements are the capacity of political leaders to mobilise resources for change, political competition, the introduction of new methods and skills for public administration, and the demands and participation of civil society. The study interviewed past and present officials of the selected local governments, examined relevant documents about local fiscal conditions, assessed their electoral history, and analysed the relationship of the local governments to state and federal. Thus, the study observed that the local governments differed significantly on the index of government performance developed for the research and that the leadership of the local governments emerged as an essential factor in explaining differences among the local governments. This, according to the study, is attributed to the emergence of the local public officials through competitive elections, capacity-building initiatives and a well-mobilised civil society. Also, the study revealed an increase of responsibilities for the local governments in terms of resources and autonomy despite the considerable centralisation in Mexico.

Another study by Gervasoni (2010) hypothesised that low levels of democracy are inevitable in federations where local governments (subnational states) enjoy generous central government subsidies and have a weak tax link with local citizens

and businesses. In other words, the study based its analysis on the premise that ‘the way subnational governments are financed lead to some differences in subnational regimes (Gervasoni, 2010: 307). The study referred to several works that had associated democratic deficits at lower levels of government with structural socio-economic characteristics such as poverty or low level of urbanisation and economic development. The attributes mentioned above are typical of most local governments, especially in developing countries, including Nigeria.

The study’s findings revealed that the origin and size of a local government’s fiscal resources have significant regime consequences. Thus, in Argentina, the differences in the local governments democracy to a substantial extent can be explained by the allocation of tax revenues among provinces by the central government. Governors in command of plentiful fiscal federalism rents appear to use their financial muscle to minimise their constituents’ economic autonomy and ultimately to weaken democratic contestation and institutional constraints on their power (Gervasoni, 2010).

Adelabu (2010) examined service delivery in Oyo State by explicitly focusing on the provisioning of primary education and healthcare. While highlighting the main purpose of local governments in Nigeria, the study examined several hinderances militating the delivery of primary education and healthcare in the state. Thus, factors such as lack of funds, corruption, leadership quality, bad governance, managerial accountability, leadership problem, instability in governance, and encroachment by other levels of government were identified. Consequently, the study concluded that local governments in Oyo state are not delivering optimum primary education and healthcare service. Hence, it recommends the need for proactive measures towards improving service delivery by local governments in Nigeria.

Bello (2013) investigates the management of State Joint Local Government Account and its effect on service delivery in selected local governments in Kaduna State. The study also examined the desirability of reviewing the provision of the 1999 Constitution dealing with the State Joint Local Government Account. The study aligned with the previous studies that the local governments are hamstrung by the state governments' refusal to contribute their share of internal revenue to the joint account as prescribed by law, interference, abuse, and mismanagement. Thus, the study argued the joint account had placed a marked limitation on the extent to which local governments deliver services required by the citizens. Therefore, the study recommends outright abolishing the State Joint Local Government for the local governments to access their statutory allocation without any hinderance.

Wilson (2013) examined the politics of local government reforms and democratic governance in Nigerian local governments. The study identifies challenging issues with the various reforms and highlights their impact on local governments democratic governance. With secondary data, the study revealed the mixed comprehension of local governments in the country since colonial times until 1976 reforms. Also, both the 1979 and 1999 constitutions formally granted and recognised local governments as the third tier of government in Nigeria with defined mandates and powers to develop the rural areas and encourage rural populace participation in democratic activities.

The study identified the challenges that bedevilled local governments, which among others: the insecurity of tenure of local government councils, abuse of local government funds by the state governments, the influence of local government service commission, and inefficiency and malfeasance of the State Independent Electoral Commission (SIEC). These, the study argued, contributed immensely to the setbacks