

Intergovernmental Financial Transfer and Socio-Economic Development at the Grassroot Level: an Empirical Study of Selected Local Governments in Lagos State, Nigeria

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Abstract

This study examines the effect of intergovernmental financial transfer on socio-economic development in Nigeria with specific reference to selected local governments in Lagos State. It adopts a descriptive survey design, and it relied on both primary and secondary sources of data. Primary data was obtained from selected local governments in the five divisions of the state through interviews conducted with purposively selected Senior Officials from each local government comprising Directors, Deputy Directors, Head of Departments and Units to supplement the information from the questionnaire. The questionnaire was administered to three hundred and nine (309) respondents, while two hundred and seventy (270) copies were duly completed and retrieved representing eighty-seven percent (87%). Data collected were analysed using descriptive statistics such as simple percentage, frequency distribution while the stated hypotheses were tested using Pearson Product Moment Correlation Co-efficient and Analysis of Variance (ANOVA) with the aid of Statistical Package for Social Sciences (SPSS). Secondary data was also obtained through the review of extant literature sourced from journals, scholarly articles from the internet, books, newspapers articles and data from library archives. The finding reveals that fiscal arrangement among the tiers of government in a federal structure tends to engender effective socio-economic development at the local level. It observes that the statutory transfer of revenue from both federation account and state internally generated revenue to local government if properly implemented will enhance the level of development at the grassroots. The study concludes that intergovernmental financial transfer is remarkable in federal structure because it assists in the division of public sector functions and finances among different tiers of government and the provision of services by ensuring a proper alignment of responsibilities and fiscal instruments. The study, therefore, recommends among others that, there is a need for resources mobilization and financial management to promote socio-economic development at the local level since the most courageous reform is likely to fail without adequate financial resources. Thus, a strong political commitment and will to use the funds towards the attainment of socio-economic objectives are required in a federal state. Also, suitable enforceable legislation is necessary to free local government from joint allocation account system in Nigeria.

Keywords:

Financial transfer, Intergovernmental fiscal relations, Local government, Socio-economic development, Statutory allocation

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Background to the Study

One of the essential ingredients of federalism is the existence of a financial arrangement, which details tax jurisdiction and the functional responsibilities among the various levels of government (Teidi, 2003). The fiscal arrangement among the different tiers of government in a federal structure is often referred to as fiscal federalism or intergovernmental fiscal relations (Fatile & Adejuwon, 2009). This can also be described as the allocation of the authority and responsibility. (Fjeldstad, 2001).

Intergovernmental fiscal transfers have for long been a dominant feature of public finance in many countries. The appropriate level of transfers among governments in a country is often determined by appealing to notions of fairness and equity (Bird & Smart, 2002). Intergovernmental fiscal transfers are used to ensure that revenues roughly match the expenditure needs of various levels of sub-national governments. The structure of these transfers creates incentives for national, regional, and local governments that affect fiscal management, macroeconomic stability, distributional equity, allocation efficiency, and public service delivery (Broadway & Shaw, 2007).

In many countries, the lower levels of government undertake necessary fiscal functions, both on the expenditure side and concerning revenues (Broadway et al., 2000). Under such arrangement, fiscal arrangements between the national and lower levels determine the way in which taxes are allocated and shared among the various levels of government, and how funds are transferred from one level to another. Thus, intergovernmental relations are essential for the development and operation of an effective and efficient public sector (Nchuchuwe & Adejuwon, 2015).

Intergovernmental fiscal relations are crucial to the survival of a federal system. Thus, in most, if not all countries, one of the most constant sources of intergovernmental wrangles centres on the problem of securing adequate financial resources on the part of the lower levels of government to discharge essential political and constitutional responsibilities (Fatile & Adejuwon, 2008). In Nigeria's federalism, for instance, there exist three-tier levels of government which places the federal government as the pivot while the state and local governments followed correspondingly (Oladeji, 2003).

Fiscal transfers to local governments are direct financial allocations from the federal government or state government to the local government. It cannot be over-emphasized that financial transfers have most significantly defined federal/state/local government fiscal relations worldwide. In some countries, these financial transfers are referred to as intergovernmental transfers, and in Nigeria, it is called grants or statutory allocations. The transfer of funds from the central government to the local administrations is premised on certain considerations. Most important of the considerations concerns the relative reluctance of the federal government to vacate some certain revenue fields for the local governments (Alo, 2012).

The issue of fiscal federalism has engaged various commissions and committees since the colonial days in Nigeria. Even today, this issue continues to be on the front burner of national discourse. The Nigerian 1999 constitution outlines the manner in which revenues are shared

among the three different tiers. The country operates a highly centralized revenue system. All federally collected revenues are paid into the Federation Account, which is then shared among the various levels of governments, strictly according to the formula developed by the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) and approved by the National Assembly (Jean-François & Muhammad-Kabir, 2015). Distributions from the Federation Account to the different tiers of government is based on a vertical allocation formula that assigns a specific share of the account to each level of government, as well as horizontal allocation formulas that distribute both the state and local government shares of the Federation Account among the states and local governments, respectively (Jean-Francois & Muhammad-Kabir, 2016). This study, therefore, examines intergovernmental fiscal transfer and socio-economic development at the grassroots with specific reference to selected local governments in Lagos state.

Statement of the Problem

There has been an increasing wave of discordant voices from state and local governments over the fiscal relationship in a federal state (Akindele & Olaopa, 2002). In Nigeria, fiscal relationship has been generating tension among the three tiers of government (Angahar, 2013). In fact, this disturbing aspect of Nigerian fiscal federalism, among other factors has lately led to a demand for resource control by nearly half of the states in Nigeria (Olanipekun, 2015).

Resource sharing and distributing among the different levels of government in Nigeria federation remained controversial due to lack of an acceptable formula. Thus, the issue of resource transfer and sharing has generated tension and bad blood among the three tiers of government since independence. Unfortunately, the local government in Nigeria has not been able to live up to its responsibilities of stimulating and promoting socio-economic development at the grassroots. Many factors have been linked to this problem, and paramount is the nature of fiscal transfers to local governments in Nigeria federal structure. As observed by Anakom (2009) since the bulk of local government finances come from intergovernmental financial transfers, and that such funds flow down from the higher levels of governments to the local governments. It is important to note that local governments in Nigeria lacks financial autonomy to access the financial resources from the federation account. It is also worthy to mention that most state governments in Nigeria have failed to transfer ten percent of internally generated revenue. Moreso, most states have hijacked sources of revenue accruable to local governments. This has made it difficult for local government to effectively utilized the financial resources due to the absence of fiscal autonomy. With this, the local governments have little or no control over how to spend it. Also, this has grossly affected the local government ability to deliver on its mandate of bringing socio-economic development to the grassroots.

Objectives of the Study

The main objective of this study is to examine the effect of intergovernmental financial transfer on socio-economic development at the grassroots with specific reference to selected local governments in Lagos state, Nigeria. Other specific objective includes:

1. To examine the relationship between financial allocation from the federation account and infrastructural development at the grassroots in Lagos state.
2. To investigate the relationship state-local government joint account and service delivery at the grassroots in Lagos state.
3. To examine the extent to which statutory transfer from state internally generated revenue to the local administration affects rural development in Lagos state.

Research Questions

1. Is there any relationship between financial allocation from the federation account and infrastructural development at the grassroots in Lagos state?
2. What are the significant relationship state-local government joint account and service delivery at the grassroots in Lagos state?
3. To what extent does a statutory transfer from state internally generated revenue to local government affects rural development in Lagos state?

Research Hypotheses

1. There is no significant relationship between financial allocation from the federation account and infrastructural development at the grassroots in Lagos state.
2. There is no significant relationship between state-local government joint account and service delivery at the grassroots in Lagos state.
3. Statutory transfer from state internally generated revenue to local government does not affect rural development in Lagos state.

Literature Review

Conceptual Framework

In this section, attempts are made to conceptualize major concepts in the study. These include Intergovernmental fiscal relations, intergovernmental fiscal transfer and socio-economic development.

Intergovernmental Fiscal Relations:

Most authors refer to intergovernmental fiscal relations as fiscal federalism. In other words, the concept of intergovernmental fiscal relations is used interchangeably with fiscal federalism, implying that they mean the same thing. Intergovernmental fiscal relations or fiscal arrangements means how the various levels of government in a country/state constitutionally relates both vertically and horizontally in the sharing of the financial resources of the country and the distribution of resources (Teidi, 2003).

In the view of Babalola (2015), intergovernmental fiscal relations is the sharing of fiscal resources amongst the different tiers of government that makes up the Federation. Ewetan, Ike & Ige (2015) define intergovernmental fiscal relations as “the allocation of tax powers and expenditure responsibilities to the various tiers of government.” Adesopo, Agboola & Akinlo (2004) refer to intergovernmental fiscal relations as fiscal federalism which entails “the allocation of government spending and resources to the tiers of government. It is all about fiscal decentralization, which occurs when lower levels of government have statutory powers to raise (some) taxes and carry out spending activities within specified legal criteria”.

Intergovernmental Financial Transfers

Intergovernmental transfers are the dominant source of revenues for subnational governments in most developing and transition economies. These transfers come in a variety of forms unconditional or conditional. Unconditional transfers come simply as a budget support with no strings attached. Conditional transfers typically specify the type of expenditures that can be financed (Shah, 2003). Bird & Smart (2002) define intergovernmental financial transfers as the system through which most countries achieve vertical fiscal balance, that is, ensure that the revenues and expenditures of each level of government are approximately equal.

Bahl (2000) view intergovernmental financial transfers as a “compromise” in the sense that they “allow the central government to hold control over the public financing system while they offer a way to channel money into the budgets of provincial and local government. Bird & Smart (2002) note that as intergovernmental transfers have long been prominent aspects of public finance in many countries, the modalities for the financial transfers among the levels of government is usually determined based on principles that project fairness and equity. Ikeanyibe (2014) stresses that any ideal fiscal arrangement should be geared towards decentralizing fiscal decision-making powers by ensuring that sub-national governments are included in the process. This implies that the local government should be solely responsible for policy direction and how to raise funds and finance policies geared towards bringing development to the grassroots.

Socio-economic Development

Socio-economic development refers to as improving the living standards of the citizen of low-income earners residing in local areas, and making the process of their development self-sustaining (Okeyi, 2010). Also, Ugwu (2009) defined it as the articulation, provision and stimulation of economic activities, health and educational advancement facilities, and utilities for rural dwellers. The essence of socio-economic developments is the all-round development of the rural areas or villages with the efforts of the citizen participation in plan formulation and implementation process to enhance good governance (Ovaga, 2012), to bring about social, economic and political development in the rural areas. The interest is in the welfare of the rural populace and how to improve their living standards to participate in the policy formulation and implementation of their areas.

Intergovernmental Fiscal Relations in Nigeria

Intergovernmental fiscal systems vary from country to country. These differences partly reflect historical and geographical characteristics of each country, the degree of heterogeneity of the population and the extent of government intervention in the economy. Given this diversity, how questions of inter-governmental structures and functions are resolved in practice will often differ from country to country (Bird, 1990).

In the context of Nigeria, however, given the historic commitment to federalism as the basis for coexistence and unity, fiscal federalism has long been an important and central feature of inter-governmental relations. Even though the construction of a stable and acceptable Intergovernmental fiscal arrangement has been the subject of various commissions,

committees and other efforts since the amalgamation of Southern and Northern Nigeria in 1914, the issues remain on the front burner today, still evoking a great deal of passion and virulent contestation. The stalemate over this matter in the past Political Reform Conferences and walk-outs by delegates especially from the South-South attest to this (Ozo-Eson, 2005).

Nigeria's fiscal federalism has emanated from historical, economic, political, geographical, cultural and social factors. In all of these, fiscal arrangements remain a controversial issue since 1946. Therefore, there exist unresolved issues on this matter. When the country was under the military rule, it was thought that the type of governance exacerbated the fiscal arrangements among the three levels of government. During military rule, the federal structure was only on paper while the government was unitary (Ekpo, 2004). One of the major problems confronting intergovernmental fiscal relationships in Nigeria has to do with reconciling state/local autonomy with strong federal control under the tripartite arrangement consisting of federal, state and local governments (Teidi, 2003). This also relates to the disposition of power to raise revenues and incur expenditure among the different levels of government.

Over the years, fiscal commissions were established to work out fiscal and financial arrangements that were consistent with the assignment of powers and responsibilities to each level of government (Eboh & Igbokwe, 2006). However, with the intervention of the military in Nigerian politics, especially in 1966, Nigeria was governed more or less like unitary state which negates the effective functioning of fiscal federalism. With the return to democratic rule, there has been a significant movement towards decentralization. This derives from the perception that the closer government is to the people the better it can respond positively to the demand of the citizenry (Odoko & Nnanna, 2006).

The introduction of democratic government in 1999 re-echoed the problems of intergovernmental fiscal arrangement among the different levels of government. The issue of revenue allocation and the sharing formula has generated such intense debate that led to the demand for a national conference. It was during this period that the resource control phenomena rose to an unprecedented dimension such that the struggle for political power becomes the fight for resource control. Hence, the democratic experiment has created 'new' problem; the interference by the executive arm of government on the functions of the National Revenue and Fiscal Commission (NRMFC) on the appropriate revenue-sharing formula among the different levels of government, the debate regarding the correct interpretation of the section of the 1999 constitution affecting the derivation principle, among others have posed challenges for Nigeria's fiscal federalism (Ekpo, 2004). The challenges of intergovernmental fiscal relationship in Nigeria, therefore, hinge on the equity of the expenditure assignment and revenue raising functions among the three tiers of government. The revenue sharing and expenditure assignment formula has been inadequate in addressing the needs and resource gaps in the three levels of government in Nigeria

The Rationale for Intergovernmental Financial Transfers in Nigeria

Intergovernmental fiscal transfers account for over 60 percent of sub-national expenditures in developing and transition economies (Shah, 2003). In Nigeria, the central government is required by law to make regular grants available to state governments. Specifically, states

receive two kinds of allocation from the federal government: statutory, and non-statutory (Bello, 2014). With regards to the former, Section 162 (3) of the Nigerian Constitution of 1999 requires the Federal Government to make unconditional grants available to the states and Local Governments on an annual basis to enable them to discharge their constitutional responsibilities. Conditional grants are supplementary transfers to federating governments, and they are meant for specific purposes and must be used as directed by the granting government, usually the central government; whereas, an unconditional grant is usually a lump-sum transfer that does not have any spending restrictions and may be used as desired by the recipient government, usually the federating government (Ewetan, 2012; Ewetan, Ike, and Ige, 2015). Non-statutory grants are a rarity in Nigeria and are usually given to a state facing an emergency situation, like a flood disaster.

Fiscal matters, especially in a multi-ethnic federation such as Nigeria, go beyond the purview of economics; they have also assumed political and social dimensions. Thus, understanding a federation's fiscal system requires an understanding of the political context within which the financial system operates (Agu, 2010). It is not uncommon for the constituent units of a federation to find it difficult to be self-financing because of several factors, including economic disparity and variation in a population. Intergovernmental grants are undoubtedly instruments of fiscal adjustment and are meant to achieve certain political and economic objectives. In the specific case of Nigeria, revenue allocation, being the mechanism for sharing national financial resources, aims to achieve the “overall objective of enhancing economic growth and development, minimizing inter-governmental tensions and promoting national unity” (Shah, 2003).

In Nigeria, fiscal transfers to state governments are unconditional and are also constitutionally guaranteed, whereas grants to constituent governments in many other federations are meant to supplement independently generated revenue and also to assist financially weaker units (Murana, 2015). Grants constitute a primary source of revenue for state governments in Nigeria, and as a consequence, states have come to rely heavily on the centre for their financial needs. This dependence is at the heart of intergovernmental financial relations in the country (Ewetan, Ike, & Ige, 2015). Since horizontal equity is unattainable in a developing federation like Nigeria because of economic disparity, the case for the use of unconditional grants aimed at equalizing the ability of all federating units to provide the required public services for their citizens becomes tenable (Ikeanyibe, 2014).

Local Government and Intergovernmental Financial transfer in Nigeria

In a federal system like Nigeria, local governments are close to the people and hence could effectively alter socio-economic and political conditions within their jurisdictions. Apart from providing and maintaining basic infrastructures, local governments can complement the economic activities of other levels of government. Local government fiscal operations can complement the economic activities of other levels of government. Fiscal operations at the local government level become significant if macro-economic stability is necessary for a wider economy. If fiscal imbalance appears rampant at the local level, it could pose problems for macroeconomic management of the economy (Ekpo & Ndebbio, 1998).

The 1979 Constitution having encapsulated most of the 1979 local government reform provisions, therefore, launched the country into a new era of tripartite intergovernmental relations. Unfortunately, in many quarters, there is confusion as to the implications of the new third – tier status of Nigerian local government (Olowu, 2006). Therefore, attempts by successive governments in Nigeria to reinvent the tradition of local governance in federalism by placing local government under federal control, granting it autonomy and entrenching constitutional provisions to that effect have generated much controversy and inter-governmental rivalries among the Federal, State and Local authorities over issues of autonomy and control. The problems over the constitutional status and structure of local government, extent and mode of interference in local matters, and creation of new local government councils, among others, are fallout of the controversies and rivalries (Osaghae, 2005).

Unarguably, fiscal federalism – the whole idea of how money is raised through taxation, etc. and spent through appropriation – is usually one of the most contentious issues in federal systems. In Nigeria, revenue allocation problems have constituted, perhaps the most teething problems for various governments which failed to take some actions on revenue matters, sometimes touching off acts of provocations (Eminue, 2006).

There is no gainsaying the fact that the most severe problem facing the local government in Nigeria is the fiscal one. It is an issue the country must find a way to resolve if Nigeria is to continue as a federation. Local government fiscal operations play an important role in the macro management of the economy. At the local level, certain goods and services are best provided through public means. Hence, issues of efficiency, resource allocation, and distribution become relevant at the third level of government. Also, it is agreed that certain taxes, levies, and rates are better collected by local governments ((Fatile & Adejuwon, 2009).

Practically, local governments in Nigeria lacks autonomous financial power and are largely considered as an extension of state's ministry. The inherent nature of this problem has caused subservience, a situation where local government waits for the next directives from the state government before the former could think of, let alone embark on developmental projects. This has made local government an object of control and directives (Mbaya; Audu and Aliyu, 2014).

Intergovernmental Financial Transfers and Socioeconomic Development at the Grassroot Level

In a federal system like Nigeria, local governments are nearest to the people and hence could effectively impact on their socioeconomic and political conditions within their influence. Apart from providing and maintaining basic infrastructures at the grassroots level, local governments can augment the socio-economic efforts of other levels of government if they are adequately funded.

Fiscal activities at the local government level become considerable if the socio-economic balance is to be attained in the overall economy. If the fiscal imbalance is widespread at the local level, it could create problems for general economic management of the economy (Ewetan, Ike & Ige, 2015). The scenario is even more difficult when local governments rely on the government at the centre for intergovernmental financial transfers.

Though the revenue allocation system maintains that a certain fraction of the federation account is allocated to local governments, these funds are never enough to meet expenditure requirements. This is so because the size of the account is related to revenue from oil, which is subject to fluctuations, and the expectations of local governments far exceed the available resources (Ikeanyibe, 2014). Undoubtedly, the twin issues of revenue rights and fiscal jurisdiction have remained the most dominant and contentious in the relationship between local governments, as the third-tier of government, and the other two tiers - the federal government and the states - within the Nigerian federal state (Maystadt & Salihu 2015).

In the 1976 Local Government Reform, which drew heavily from the Brazilian experience and which took firm root in Nigeria, local government was included in the mainstream of the country's intergovernmental fiscal relations, with a defined allocation of intergovernmental financial transfers from the federation account, among other statutory provisions and administrative arrangements (Oluwole, 2013). There is no gainsaying the fact that in Nigeria, the "degree of decentralization of expenditure is higher than the degree of decentralization of revenue" thereby causing a "great divergence between sources of revenue and functional expenditure obligations in the local government" (Tapas, 2014). This means that there is a lack of the required equilibrium - hence the "problems of non-correspondence or vertical fiscal imbalance" (Shah, 2003). In Nigeria, local government expenditure has constantly surpassed the potential for revenue sources owing to the great gap between their needs and their fiscal capacity. This has largely been caused by the incongruous nature of their revenue rights and fiscal jurisdiction with the duties and functions constitutionally allocated to them (Ojo, 2014).

It has been argued that decentralization of spending responsibilities to lower levels of government will ensure improved and efficient allocation of resources for the provision of local public goods and services which mostly represent the aspirations of people at that level (Oluwole, 2013). Consequently, a decentralized intergovernmental financial transfers' system, without a vertical fiscal imbalance, is a necessary measure for ensuring socioeconomic development at the grassroots level (Adesopo, Agboola, & Akinlo, 2004).

The adverse effects of the centralization of intergovernmental fiscal transfers in the Nigerian Federation have been enormous, especially on the two lower levels of government. It has been counteractive to the role of local governments in ensuring grassroots socioeconomic development (Babalola, 2015). The centralization of fiscal power to the centre prevents the two lower levels from enjoying the principle of self-determination that usually goes with the concept of federalism (Angahar, 2013). Naturally, states are created in a federation to enable the people to be free and independent and have access to rights and privileges within the state to which they belong. Hardly can any state or local government plan on its own to prosecute a project without federal financial support by way of allocation. The heavy dependence on federal funding tends to lead to a lack of direction and utter neglect of important projects, thus, hampering socio-economic development at the grassroots level (Ayogu & Gbadebo-Smith, 2014).

Empirical Review

Some studies have been conducted on the nature of intergovernmental financial transfers in Nigeria federal system. Olofin et al. (2012) applied the cluster analysis to show the disparity of intergovernmental financial transfers among state and local governments. The results from their study showed that a small number of states which constituted the clusters regarding statutory allocation, Value Added Tax (VAT) and net statutory allocation occupied the range of values for highest and lowest allocations. Adesopo, Agboola & Akinlo (2014) were able to show the lopsidedness in the autonomy of the intergovernmental fiscal relations in the Nigeria federation as a result of the vertical mode of financial transfers and tax jurisdiction. They noted that both the local and state governments had been treated as mere appendages rather than equal partners in the federal system. Though the study viewed the system of financial transfers from the angle of autonomy, it noted that the intergovernmental relationship in Nigeria had incapacitated the lower levels in their quest to perform the functions and responsibilities assigned to them by the Constitution.

Ugbogu (1983) in his study investigated the relation between the patterns of fiscal decentralization and economic development among Nigerian states. The first important relationship investigated regarding fiscal decentralization was the relationship between the federal, states and the local governments' expenditure and economic development. Among the economic variables inherent in economic growth tested were the taxing powers of the state, local and federal governments. The study of Abachi (2011) revealed that the optimal division of fiscal responsibilities of lower levels of government depended on intergovernmental transfer between the three tiers of government. Such transfers depend on the federal government's revenue and the proportions made available to the other two tiers of governments. Using comparative approach, Ebajemito & Abudu (1999) compared the intergovernmental fiscal relations in Nigeria with those in Australia, Canada and the United States of America. The study revealed that the fiscal arrangement in Nigeria favours a high concentration of finances at the centre. This, they attributed to the prolonged military rule in the country. While the practice in Canada shows decentralization of resources in favour of lower levels of governments, that of the United States has assumed a middle course. And the experience in Australia is the same with what is obtainable in Nigeria.

Chete (1998) studied the degree of fiscal decentralization and assessed its impact on macroeconomic management in the Nigerian economy. The study identifies fiscal decentralization indicators to include sub-national fiscal autonomy, sub-national dependency and subnational spending share. Using descriptive statistics and correlation relationships, the results of the study shows that the transfer of spending assignment has not been matched by a corresponding reduction in spending share at the centre. Similarly, Aigbokhan (1999) investigated the pattern of fiscal decentralization and economic growth in Nigeria. In the analysis of fiscal federalism, he examined the empirical evidence in Nigeria based on the theoretical provisions. The result showed a high concentration of fiscal resources at the federal level. On the contrary, the sub-national levels experience the fiscal mismatch between spending and taxing powers. From the simple endogenous growth model, the result showed that the existing pattern of federalism in Nigeria has a negative impact on economic growth.

Theoretical Framework

This study is anchored on decentralisation theory. The basic foundation of decentralisation theory was laid by Kenneth Arrow, Richard Musgrave, and Paul Samuelson. The contribution of Samuelson (1954 & 1955), Arrows (1970) and Musgrave (1959) for decentralisation theory (Ewetan, 2012).

The theory as observed by Ikeanyibe (2014) focuses on situations where different levels of government provide adequate levels of outputs of public goods “for those goods whose special patterns of benefits are encompassed by the geographical scope of their jurisdictions” (Ikeanyibe, 2014). The theory is based on the philosophy that sub-national governments in the federation must be given power over their own life and development (Nyerere, 1972). It is believed that decentralisation would make the local governments more competent in the management of their affairs (Murana, 2016).

In relation to the fiscal transfer, the major element underlying decentralisation theory is the need for fiscal equalisation. This is in the form of lump sum transfers from the central government to decentralised governments. The arguments for equalisation are mainly two. The first which is on efficiency grounds see equalisation as a way of correcting for distorted migration patterns. The second is to assist more impoverished regions or jurisdictions. Equalization is essential in some federations (Ewetan, 2012).

The decentralisation theory is not without weaknesses. Falleti (2004) noted that critics of the decentralisation theory argue that decentralisation can lead to problems such as soft-budget constraints, macroeconomic instability, clientelism, and enlargement of bureaucracies. Despite the shortcomings of decentralisation theory, it is ideal for explaining the dynamics of intergovernmental financial transfers in Nigeria.

Methodology

The study adopts a descriptive survey design, and it relied on both primary and secondary sources of data. Primary data was obtained from selected local governments in the five divisions of Lagos state known as "IBILE" that is, Ikeja, Badagry, Ikorodu, Lagos Island and Epe Divisions. The selected local government therefore include, Alimosho local government (Ikeja Division), Ojo local government (Badagry Division), Ikorodu local government (Ikorodu division), Lagos Island local government (Lagos Island division), and Epe local government (Epe division) through interviews conducted with purposively selected Senior Officials from each local government comprising Directors, Deputy Directors, Head of Departments and Units to supplement the information from the questionnaire. The questionnaire was administered to three hundred and nine (309) respondents, while two hundred and seventy (270) copies were duly completed and retrieved representing eighty-seven percent (87%). Data collected were analyzed using descriptive statistics such as simple percentage, frequency distribution while the stated hypotheses were tested using Pearson Product Moment Correlation Co-efficient and chi-square with the aid of Statistical Package for Social Sciences (SPSS). Secondary data was also obtained through the review of extant literature sourced from journals, scholarly articles from the internet, books, newspapers articles and data from library archives.

Presentation and Analysis of Data According to Test of Hypotheses

Under this section, the hypotheses are tested. While the first and second hypotheses are tested using the correlation method, the third hypothesis is tested using the chi-square. Correlation tests whether the relationship between two variables is linear (as one variable increases, the other also increases or as one variable increases, the other variable decreases). The values of the Pearson Correlation ranges from -1 to +1 with negative numbers representing a negative correlation (as one variable increases, the other variable decreases) and positive numbers representing a positive correlation (as one variable increases, the other also increases). The closer the value is to -1 or +1, the stronger the association is between the variables.

Hypothesis one

H₀: There is no significant relationship between financial allocation from the federation account and infrastructural development at the grassroots in Lagos state.

H₁: There is a significant relationship between financial allocation from the federation account and infrastructural development at the grassroots in Lagos state.

Below is the correlation analysis of the above hypothesis, using SPSS 20.0

Table 1: Correlations Calculation of Hypothesis One

		Infrastructural development at the grassroots.
Financial allocation from federation account.	Pearson Correlation	.071
	Sig. (2-tailed)	.342
	N	183

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey, October 2017.

With a correlation value of 0.071, the above analysis reveals that there is a weak, but positive relationship financial allocation from the federation account and infrastructural development at the grassroots in Lagos state. Therefore, the null hypothesis is rejected, and the alternative hypothesis accepted. Thus, there is a significant relationship between financial allocation from the federation account and infrastructural development at the grassroots in Lagos state.

Hypothesis Two

H₀: There is no significant relationship between state-local government joint account and service delivery at the grassroots in Lagos state.

H₁: There is a significant relationship between state-local government joint account and service delivery at the grassroots in Lagos state.

Below is the correlation analysis of the above hypothesis using SPSS 20.0

Table 2: Correlations Calculation of Hypothesis Two

		Service delivery at the grassroots .
State Joint LG account.	Pearson	
	Correlation	-.022
	Sig. (2-tailed)	.766
	N	183

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey, October 2017.

With a correlation value of -0.022, the above analysis reveals that there is a weak, but negative relationship between state-local government joint account and service delivery at the grassroots. Thus, the null hypothesis should be accepted. This implies that there is no significant relationship between state-local government joint account and service delivery at the grassroots in Lagos state.

Hypothesis Three

H₀: Statutory transfer from state internally generated revenue to local government does not affect rural development in Lagos state.

H₁: Statutory transfer from state internally generated revenue to local government affect rural development in Lagos state.

Below is the chi-square analysis of the hypothesis using SPSS 20.0

Hypothesis Test Summary			
Null Hypothesis	Test	Sig.	Decision
The categories of Consistent Statutory transfer from state IGR and rural development needs occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
Asymptotic significances are displayed. The significance level is .05.			

Source: Field Survey, October 2017.

The chi-square test resulted in a calculated value of 84.240, with a p-value of .000, and degrees of freedom of 4. The hypothesis test summary states that the null hypothesis should be rejected because the categorical variables do not occur with equal probabilities, or are unevenly distributed. Thus, the null hypothesis is rejected, and the alternative hypothesis accepted. This implies that statutory transfer from state internally generated revenue to local government affect rural development in Lagos state.

Discussions of Findings

The first finding shows that there is a significant relationship between financial allocation from the federation account and infrastructural development at the grassroots in Lagos state. This view is supported by Nchuchwue & Adejuwon (2015) who observed that the fiscal

arrangement among the different tiers of government in a federal structure enhances effective socio-economic development at the local level. This view is also supported by Ugbogu (1983) in his study investigated the relationship between the patterns of fiscal decentralisation and economic development among Nigerian states. The study also reveals that there is a significant relationship between state-local government joint account and service delivery at the grassroots in Lagos state. Whereas, Adesopo, Agboola & Akinlo (2014) were able to show the lopsidedness in the autonomy of the intergovernmental fiscal relations in the Nigeria federation as a result of the vertical mode of financial transfers and tax jurisdiction. They noted that both the local and state governments had been treated as mere appendages rather than equal partners in the federal system.

The third finding revealed that statutory transfer from the state internally generated revenue to local government affects rural development in Nigeria. This is in agreement with the view of Wolmman (1990) that statutory transfer promotes socio-economic well-being of the citizens which include provision of public utilities, security, economic development projects, delivery of goods and services at the local government level aimed at moving the standard of living of the populace to the next level. While Olofin et al. (2012) show the disparity of intergovernmental financial transfers among state and local governments.

Conclusion

Going through the discourse on intergovernmental fiscal transfers and its effects on socio-economic development at the grassroots, in the Nigerian context, one obvious observation is that there exist fiscal imbalance (both vertical and horizontal) through the system of fiscal transfers from the federal to state and local governments. The fiscal imbalances in Nigeria are very huge beyond the tolerance that could owe to the inevitability of imbalances across the federation, there is high dependence on fiscal transfers as a last resort after all attempts to narrow the fiscal gap are accomplished.

The study has shown that Nigerian local governments are clearly not financial viable. Local governments in many states of the federation generate less than five percent of their total revenue internally. There is an urgent need to give attention to the issue of fiscal imbalance among the three levels of government and an urgent review of the revenue sharing formula in Nigeria.

Recommendations

This study recommends measures to bridge the gap for improved financial resources so that they can be able to bring socio-economic development to the grassroots as follows:

1. There is need for the establishment of an independent commission which does not have any partisan relationship/influence with any political party in power but is fixated on how to improve intergovernmental financial transfers to the local government level.
2. There should be equal representatives for each local government to reduce the tension of different majority tendencies in the commission. The fact that it is all-inclusive initiative has given it the advantage of internalizing politics in the commission owing to the identity of the members, and they could deliberate even on political compromises to reach an amicable decision.

3. On empowering the fiscal capacity of the local governments, there is the need to have an organ that has the primary role of enhancing the fiscal capacity of the local governments so that the prevalent huge fiscal gap in between the higher tiers of government and the local government in Nigeria could be bridged.
4. The local governments should be entitled to impose their own tax rates at least on revenue sources exclusively reserved to them with the Nigerian Constitution prescribing for that requirement. It is pertinent that the local governments should be empowered by the constitutions to collect VAT from local industries.
5. It is also suggested that the constitutional requirement of fiscal transfers to the local governments by the federal government be under the watchful eyes of the national assembly. Legislations should be enacted on local government borrowing to enable them to widen their prospects for having sufficient funding at their disposal. Boosting the fiscal capacity of the local governments is a certain approach towards making them deliver socioeconomic development to the grassroots.

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