Leadership, Empowerment, Advocacy and Development (LEAD)

An Analysis of Intergovernmental Flows for Local Services in Bauchi and Sokoto States

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An Analysis of Intergovernmental Flows for Local Services in Bauchi and Sokoto States

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Foreword

The Leadership, Empowerment, Advocacy and Development (LEAD) Project, funded by U.S. Agency for International development (USAID), aims to achieve four objectives in Bauchi and Sokoto states:

1. Strengthened local government capacity
2. Increased transparency of local government operations
3. Increased capacity of local organizations
4. Improved service delivery

More specifically, Objective 2 seeks to strengthen the local budget process and improve resources for local government. Recognizing that intergovernmental transfers predominate the resource pool for local governments and that these transfers are intertwined in many ways with service delivery responsibilities, the LEAD Project has undertaken this study to clarify current functional responsibilities and resource flows in an effort to bring better funded and more efficient services to citizens.

The authors of this report wish to thank the numerous state and local government officials who sat through long interviews to provide perspectives and information that were vital to the drafting of this report. We thank them for their candor and willingness to discuss ways to bring better governance to communities in Bauchi and Sokoto states. We also thank the LEAD staff who provided the valuable support and insights that made the report possible.

Abbreviations

AG/LG	Office of the Auditor General for Local Government
FRL	Fiscal Responsibility Law
IGR	internally generated revenue
JAC	Joint Account Committee
LEAD	Leadership, Empowerment, Advocacy and Development
LGA	local government authority
LGEA	Local Government Education Authority
LGSC	Local Government Service Commission
MBEP	Ministry of Budget and Economic Planning
MLG	Ministry of Local Government
NEI	Nigeria Education Initiative
PHC	primary health care
PHCDA	Primary Health Care Development Agencies
PPL	Public Procurement Law
SUBEB	State UBE Boards
TSHIP	Targeted States High Impact Project
UBE	Universal Basic Education
VAT	value-added tax

I. Study Goal and Methodology

Since the Constitution of 1999, Nigeria has recently made important strides in cementing its democratic foundation, with national and state elections that provide a democratic transition after years of military rule. As the country continues to strengthen this foundation, attention to improving democratic governance at the local level will be critical. Local governments provide services that affect people's daily lives: building the legitimacy of local structures through the provision of responsive and meaningful services will be an important means to establishing trust between citizens and government. A sound framework for local governance requires the clear assignment of service responsibilities, adequate resources to carry out those responsibilities, and adequate access to information so that stakeholders—citizens, civil society organizations, and government officials at all levels—can make an informed assessment about how well local government fulfills its role.

The goal of this study is to stimulate a discussion about the current intergovernmental framework by providing a preliminary analysis of the current state of local service provision and funding in Bauchi and Sokoto states. Resource flows cannot be divorced from the service responsibilities that those resources are supposed to fund. Therefore, this study examines both the evolving framework for services, particularly health and education, that are provided at the local level as well as the intergovernmental revenue flows that fund service provision, with a focus on the flows to the local government level. Our hope is to provide objective information to allow the stakeholders to better understand the issues and, in turn, make informed decisions about reform that are based on data and analysis.

The LEAD Project used a multifaceted methodology in conducting this study. Elements of the methodology include the following.

1. **Interviews with local and state government officials**: in each state, the study team interviewed a range of government stakeholders to determine their understanding of procedures and perception of issues. At the state level, this included officials in

    - Bauchi: the Ministry for Local Government Affairs (MLG), Ministry of Budget and Economic Planning (MBEP), Office of the Auditor General for Local Government, Office of the Accountant General, Ministry of Health, and Ministry of Education.
    - Sokoto: the MLG, MBEP, Office of the State Auditor General, and the State Universal Basic Education Board (SUBEB).

    At the local level, the LEAD team met with numerous local governments (10 out of 20 LGAs in Bauchi and 12 out of 23 in Sokoto) using a standardized questionnaire to guide the interview. Officials interviewed included the local government authority (LGA) secretary, head of administration, finance director, and service heads. The elected local councils had been dismissed because their mandate had expired; therefore, no elected officials were interviewed.

2. **Data analysis**: The project developed a database of budget information from 2008 to 2010, which formed the basis for analyses of LGA revenue and expenditure performance. In addition, the team obtained information on the Joint Account allocations at the state level.
3. **Legislation review**: We reviewed key laws as they pertain to intergovernmental relations and local government service responsibilities and finances.

   Because a substantial portion of this study is devoted to an analysis of intergovernmental transfers, the LEAD team has drawn on the principles of such systems that are presented in many literature sources to guide the evaluation of how the transfer system works in Bauchi and Sokoto. [1] These principles include the objectives for design of the transfer system and its operational characteristics.

   - Vertical balance: ensuring balance between the expenditure (service) responsibilities of various levels of government and the revenue sources available to them
   - Horizontal balance: ensuring a degree of equity across local governments, which by their nature may have varied resource bases
   - Adequacy: ensuring that local governments have adequate resources to carry out their assigned responsibilities
   - Transparency: providing clear and verifiable criteria for the allocation of transfers
   - Predictability: providing a stable flow on an established schedule
   - Efficiency: ensuring that the allocation criteria do not distort local decision making.

This report is structured to provide an overview of intergovernmental flows for local services as well as a detailed analysis of the situation in Bauchi and Sokoto. Section 2 presents an overview of local service responsibilities and funding in the federal system. The two state studies are presented as separate sections (Sections 3 and 4) so that they may be easily reviewed by the respective audiences in the two states. Section 5 includes recommended measures to improve the service and revenue systems with the goal of increasing transparency and effectiveness.

[1] For example, see Richard Bird and Michael Smart, "Intergovernmental Fiscal Transfers: Some Lessons Learned from International Experience" (Paper presented at the Symposium on Intergovernmental Transfers in Asian Countries, Tokyo, 2001); or Roy Bahl, *Intergovernmental Transfers in Developing and Transition Countries: Principles and Practice* (The World Bank Institute, 1999).

II. Local Services and Funding in the Federal System

The Nigerian government is established on the principles of federalism, a system well suited to organizing a pluralistic society such as Nigeria. Accordingly, the federal and state governments should have clear and independent spheres of activity and control over resources to fulfill their responsibilities. The Constitution of the Federal Republic of 1999 (hereafter 1999 Constitution) establishes, in the Second Schedule, both an exclusive list of federal functions and a list of specific functions that are the concurrent responsibility of federal and state levels. In this regard, the 1999 Constitution corrects previous constitutions that allowed the federal and state levels to legislate simultaneously on a large number of issues. However, the significant number of responsibilities that are shared among the federal, state, and local levels require a high degree of structured coordination to achieve development policy goals.

Chapter 1, Section 7 (1) of the 1999 Constitution, states that "The system of local government by democratically elected local government councils under this Constitution is guaranteed; and accordingly, the Government of every State shall….ensure their existence under a law which provides for the establishment, structure, composition, finance and functions of such councils." In other words, the 1999 Constitution establishes local government as one of the three tiers of government, but assigns to the states the responsibility of specifically regulating the third tier beyond the provisions in the Constitution. Indeed, the Constitution, according to recent court decisions, limits the functional role of the federal government in local government affairs to allocating public revenue and voter registration and electoral procedures for local council elections. However, the 1999 Constitution does address the power of the local government to legislate its own bylaws, unlike the earlier 1989 Constitution. Rather, the 1999 Constitution gives states the power to legislate for local government.

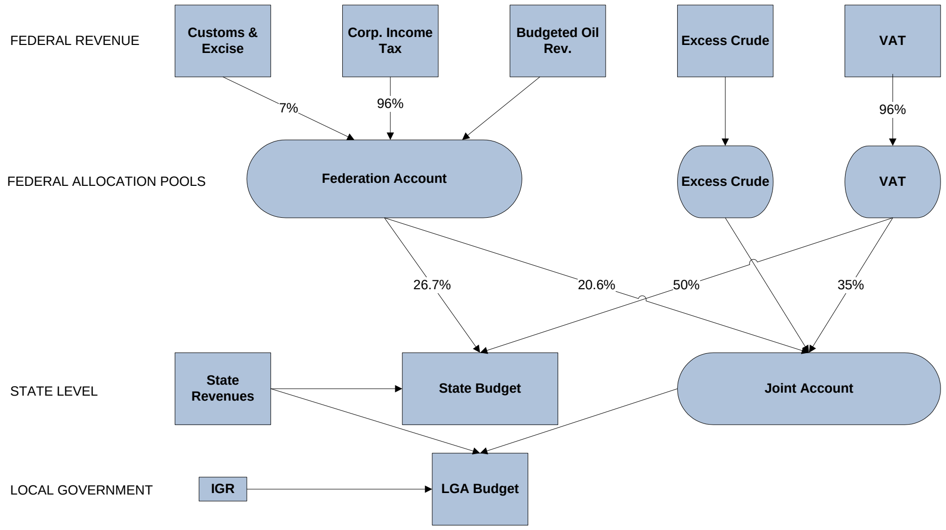
As a federal system, spheres of activities are divided among federal, state, and local levels of government. Service provision and funding in Nigeria is a complex matrix of responsibilities shared between the three levels. Provisions of the Constitution speak specifically to service responsibilities and revenue sources of local government: the Fourth Schedule describes functions for a local government council. It lists a specific set of functions in areas of local revenue mobilization, direct service provision, and regulation. It also lists a set of concurrent responsibilities in education, health and agriculture that may be shared with state government.

Section 162 (1) of the Constitution establishes the principal revenue source for local governments by creating the "Federation Account," which receives all revenues, with a few exceptions, of the government and allocates them among the three tiers of government. The Federation Account is managed by the Revenue Mobilization Allocation and Fiscal Commission whose responsibility is to propose to the National Assembly criteria for allocations to local governments, taking into account, according to the Constitution, "…population, equality of states, internal revenue generation, land mass, terrain as well as population density."

Section 162 (6) also calls for each state to establish a State Joint Local Government Account to receive and distribute the allocations from the Federation Account. The structure and operations of the state-level Joint Accounts are regulated by state law. Prior to the 1999 Constitution, allocations from the federal level to local governments were transferred directly, without the intervention at the state level. A recent Supreme Court decision, *Attorney-General, Federation v. Attorney-General, Abia State & 35 Ors.* (No. 2) (2002) 6 (Pt. 764) 542 SC, has clarified the role of the Federal and state levels in the intergovernmental finance system. The Court distinguished between the allocational role at the federal level (deciding on allocation criteria and amounts) versus the distributional role at the state level (distributing the allocated amounts). This decision clarifies the role of the federal government to allocate the Statutory allocation according to defined criteria, and describes the state's role in distributing the allocated funds from the Joint Account to local governments, whereby granting each state authority to develop their own criteria and withhold or deduct parts of the allocation for reasons defined by law.

The resources allocated to local governments through the Federation Account are derived from multiple sources that flow into three "pools" for distribution (***Exhibit 1***, but note that it does not show allocations to the federal level). The first and largest pool is the Federation Account into which flow proceeds from budgeted oil revenue (the predominant source), customs and excise taxes, and corporate income tax. By the formula approved by the National Assembly, 20.6 percent of the Federation Account funds flow down to local governments as the "Statutory allocation," through the State Joint Accounts, according to specific criteria that correspond to the requirements in the Constitution. Monthly releases of the Statutory allocation from the Federation Account are posted on the Ministry of Finance's website and in newspapers. In addition to the Federation Account, 35 percent of the pool of revenues from the value added tax (VAT) are released by formula periodically for local governments. Finally, a portion of revenues accruing in excess of a benchmark value of crude oil (hereafter "excess crude") is distributed periodically to local governments.

Exhibit 1. Federal Flows to State and Local Governments (Percentages of Revenues That Flow to Pools and Levels of Government)



The net impact of this allocation process is that Nigerian local and state governments benefit from a relatively large share of public resources, comparing favorably to other emerging market economies. As a result of the revenue sharing mechanisms, the World Bank estimates that "total subnational budget expenditure in 2005 was almost four times higher in real terms than the 1999 level."[2] The local government's share of total public revenues is estimated at 23 percent, including the statutory, VAT, and excess crude allocations. However, it is noteworthy that, in Nigeria, subnational revenues are almost entirely transfers from the federal government; therefore, revenue sources consumed at the subnational level are still managed at the federal level. Own source revenues are comparatively unimportant. This is in large part a reflection of the importance of oil revenues and the resulting lack of incentive for local revenue mobilization. ***Table 1*** presents a comparative analysis of subnational finances in selected emerging market economies.

Table 1. Comparison of subnational governments' finances[3]

Country	% of GDP	% GDP Own source	% GDP Transfers
China	14.5	8.2	6.3
Columbia	10.2	4.1	6.2
Indonesia	8.2	0.7	6.7
Nigeria	12.7	0.8	11.9

GDP, gross domestic product.

[2] Lev Freinkman, Intergovernmental Relations in Nigeria: Improving Service Delivery in Core Sectors (Munich Personal RePEc Archive, Paper 10032, April 2007, p.3).

[3] International Monetary Fund, Macro Lessons for a Sound Design of Fiscal Decentralization: Background Studies (Washington, DC, July 2009).

Beyond these relatively positive findings, a key question remains: to what extent are these funds translated into local service provision? Several factors are relevant to this question, including the ability of state governments to deduct funds during the allocation process and centrally mandated service mechanisms also subject to deduction at the state level.

To combat the mismanagement and corruption that had occurred in public finance over the years, the National Assembly of Nigeria has passed several laws that are intended to increase transparency and efficiency in public financial management. After passage at the federal level, these laws can be domesticated at the state level, and then implemented within state and local government administrations. The laws include the following.

- **The Fiscal Responsibility Law** (FRL): passed in 2007, the FRL is intended to provide prudent management of public resources, ensure macro-economic stability, and promote transparency and accountability in fiscal operations. Key features include the establishment of a Medium Term Expenditure Framework (MTEF) that guides revenue and expenditure decisions for a three year period; clear rules for annual budget development in line with the MTEF; a framework of debt management to guard against excessive borrowing; and requirements for public disclosure and publication of fiscal documents to promote transparency.
- **The Public Procurement Law** (PPL): also passed in 2007, the PPL regulates public sector purchasing for goods, works, and services. It is designed to open up public procurement to more competition, promote transparency and cost accuracy, and ensure the application of due diligence procedures in the award of public contracts.
- **The Anti-Corruption Law**: the law establishes an Anti-Corruption Commission to ensure the full application of the FRL and the PPL.

Beyond the constitutionally provided functions and revenue sources of local government, several recent federal sectoral programs in health and education have had a substantial impact on how services are provided and funded at the local level. This section provides a brief overview of the principal programs. Refer to the respective state case studies for a detailed description of service implementation.

Health care in Nigeria is based on a three-tiered approach in which responsibilities for different functions in health care delivery are shared among the three tiers of government. Local governments are responsible for providing primary health care facilities and services; states for secondary facilities and services; and the federal government for tertiary facilities and services, including overall policy development and program design as well as medical training. The country’s primary health care system dates back to the 1980s with the National Primary Health Care Development Agency (established in 1992) serving as the lead agency in the system. Subsequently, state-level Primary Health Care Development Agencies (PHCDA) were established within Ministries of Health in the Federation.

These agencies oversee the functioning of primary health care (PHC) services and facilities within LGAs, which include (from the most comprehensive facility to the simplest facility): comprehensive health centers, primary health centers, maternal and child health centers, health clinics, and health posts or dispensaries. Construction and maintenance of these facilities is the responsibility of both the state PHCDA and the LGA. Staffing responsibilities for primary health care is also shared between the state and the LGA. The LGA recruits and hires PHC staff for civil service levels 1–6. The Local Government Service Commission (LGSC) on behalf of the LGA, recruits the more specialized staff, levels 7 and above. The PHC legislation also mandates a deduction equal to 0.5 percent of the monthly LGA Statutory allocation as the LGA's contribution to the primary health care program. The deduction is made by the state Joint Account Committee (JAC) and transferred to the PHC agency.

Recognizing the need to improve primary health care across the country, in 2007 the NPHCDA developed a ward minimum health care package designed to ensure an acceptable minimum package of health services at the local level. The package sets interventions in six areas (control of communicable diseases, child survival, maternal and child health, nutrition, noncommunicable diseases, and health education and community mobilization) and key support services (provision of essential drugs, human resources for health, health infrastructure development, and a two-way referral system).[4] Delivering this package of services requires coordination and resources from all levels of government. Numerous donor agencies also provide support for a variety of primary health services and programs.

Education is also a shared service with responsibilities located at the federal, state, and local levels. The Universal Basic Education (UBE) program was introduced in 1999 and its legislative basis came in 2004. The UBE Act of 2004 aims to ensure full access to nine years of formal basic education, reduce the drop-out rate, and strengthen literacy and numeracy skills. Moreover, it seeks to make the formal levels of primary and junior secondary education universal, free, and compulsory and establishes support services for disadvantaged groups. Under UBE, each tier of government has a specific service role. The federal government has primary responsibility for school construction and renovation. State government has primary responsibility for teacher training, textbooks, and supplies. The State UBE Boards (SUBEB) produce an annual plan that describes funding plans for construction, teacher training and supplies and, in turn, receive a counterpart grant from the federal level at the rate of 70 percent for construction and 15 percent for teacher training and supplies. Local governments provide teachers' salaries and maintenance of primary school facilities.

All teacher recruitment is done by the SUBEB and posted to the Local Government Education Authority (LGEA). Salaries and allowances, based on current teacher roles, are deducted by the state JAC as a gross amount, part of the monthly deduction process. In addition, the LGEA is supposed to assist the SUBEB in education planning (facilities construction and renovation and teacher deployment) at the local level. The LGEA secretary is appointed by the SUBEB, although not necessarily

[4] Bauchi State Ministry of Health, Bauchi State Ward Minimum Health Care Package (Bauchi, 2011).

through consultation with the LGA chairman. SUBEBs also establish School-based Management Committees to help mobilize citizens to support enrollment.

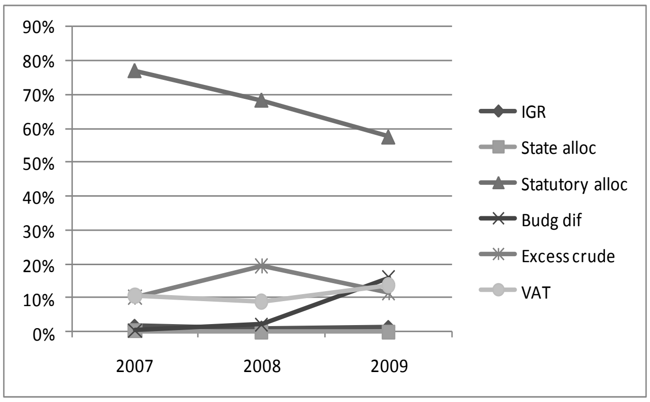
III. Intergovernmental Flows for Local Services: Bauchi State

Bauchi State, in the Northeast region of Nigeria, comprises 20 local governments and a total population in 2010 of approximately 5.1 million people[5]. The LGAs range in size from Bauchi and Ningi, the largest LGAs (with populations estimated at nearly 550,000 and over 400,000, respectively), to Dass and Jama'are, the smallest (with populations of nearly 100,000 and 125,000, respectively).

3.1 Local Government Finance

The revenue composition of a sample of Bauchi LGAs reflects the predominance of the Statutory allocation among the federal revenue sources (***Exhibit 2***). The VAT has also slightly increased in 2010. The budget difference, or remaining balance transferred at the end of one year to the next, is substantial in years following significant increase in allocations from the federal government. Transfers of state revenue to local governments are insignificant, accounting for less than one percent of total revenues, and only provided to individual LGAs, not allocated across all.

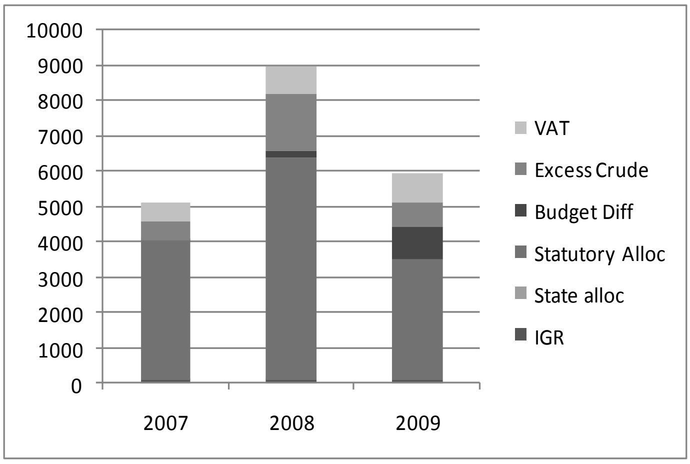
Exhibit 2. LGA Revenue Composition—Bauchi (Actual)



Also noteworthy is the insignificance of internally generated revenue (IGR), which accounts for only 1 to 2 percent of total revenues. In interviews, LGA officials generally overestimated the contribution of their IGR, frequently estimating IGR as 5–10 percent of total revenues. Currently, IGR consists of more than 130 different taxes, fees, and commercial proceeds. Except for a few which have rates set by the state or fixed in legislation, the local council is responsible for establishing rates and collections. Service departments collect fees related to their services and remit them to LGA revenue officers. Revenue officers collect all other IGR sources. If the revenue base for local governments is to expand, it will undoubtedly be in this area. The LEAD Project has seen promising results in recent IGR mobilization programs, which guides LGAs to focus on the most relevant and potentially important resources, then introduces improved management practices, including a dialogue with the fee

[5] 2006 National Census with estimated 2.3% annual growth rate http://data.un.org/CountryProfile.aspx?crName=NIGERIA#Summary

Exhibit 3. Average LGA Revenue Sources–Bauchi LGAs (Naira per capita, actual)



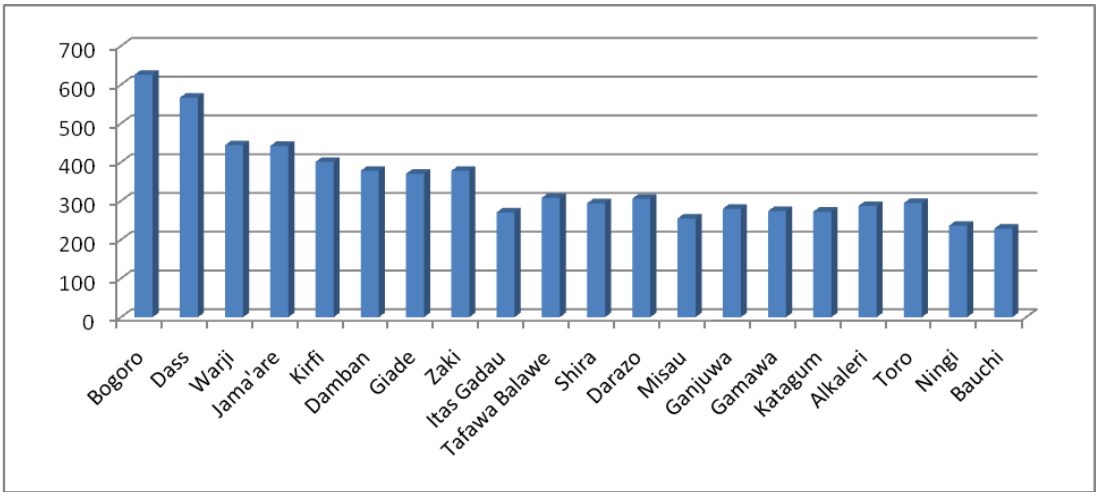
payers. However, IGR will likely never be a significant resource in comparison with the flows from the Federation Account.

Reflecting the volume of funds that flow down from the Federation Account, per capita revenues from 2008 to 2010 were significant, but highly variable, reflecting in part the volatility of oil prices as well as a one-time reimbursement in 2009 (***Exhibit 3***). From a planning perspective, this level of unpredictability makes local government budgeting more difficult.

As required by the constitution, Bauchi has established a JAC to oversee the distribution of the Federation Account transfers. The JAC comprises the commissioner of Local Government, the state accountant general, and the chairmen of the Bauchi LGAs. No LGA management or finance staff participate in the JAC proceedings. The accountant general prepares the proposed distribution for each month and is co-signatory to ensure that deductions comply with the law. During the monthly JAC meeting, the members are asked to agree on the distribution, which includes revenue distribution and deductions. Each LGA chairman is provided a paper copy of the monthly allocations. However, the information is not communicated to the LGA in any other manner. Several of the LGAs interviewed remarked that, a few years ago, they received notification about the allocations from the MLG, but not in recent times. The only notice they receive is the bank notice of the deposit.

The allocation criteria that the Bauchi JAC currently uses track criteria used by the Federation Account, including the weighting of the individual criteria. Forty percent of the total allocation is based on “equality” (an equal amount to all LGAs), 30 percent is based on population (a per capita amount), 10 percent is based on land mass and terrain, 10 percent on IGR effort (including an amount based on revenue mobilization and an equal amount), and 10 percent based on social development factors including primary enrollment, hospital beds, and rainfall). Within these five groups, there are further subcriteria for a total of ten. Although these criteria appear to be quantifiable, several of them are difficult to actually calculate because of the lack of data on which to base differentiated allocations. As a result, 4 of the 10 criteria are allocated in an equal amount across all LGAs. The result of this process is to favor smaller LGAs with lower populations. Indeed, almost none of the LGAs interviewed felt that each LGA gets its fair share. An analysis of one month’s allocation demonstrates that the amount received is inversely related to population size (See ***Exhibit 4***). Bogoro, the smallest LGA, received almost three times the allocation of Bauchi, the largest LGA.

Exhibit 4. Statutory Allocations to Bauchi LGAs, January 2008 (LGAs listed from the smallest to the largest)



A large part of the work of the JAC in Bauchi is approving deductions from the federal allocation to LGAs. By a combination of federal and state laws, the JAC has authorized several "mandatory" deductions listed in Table 2.

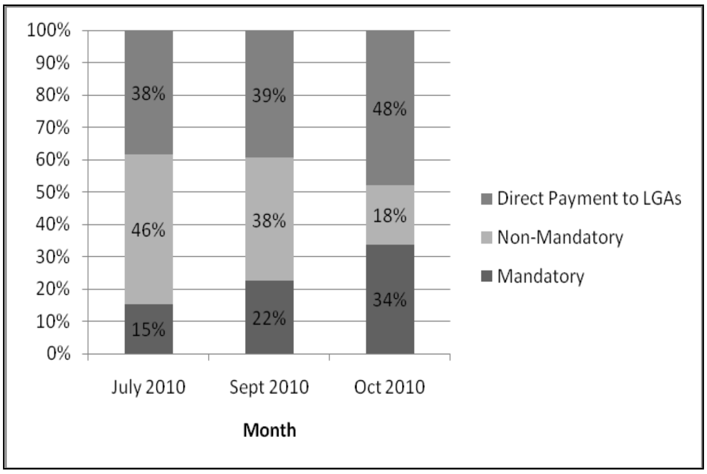
Table 2. Mandatory LGA Deductions: Bauchi State

Deduction	Purpose	Basis
SUBEB–primary education	Fund the salaries of primary school teachers employed by the LGA	Equal to the teacher salary payroll of the LGA, generally approximately 20% of the statutory allocation
Local government pension	Fund the pension system for retired local government employees	15% of the salary base of the LGA
Training fund	Support training activities sponsored by the state Local Government Service Commission	1% of the LGA's statutory allocation
Emirate Councils	Support the functioning of the traditional authorities in the state	Ranges from 3% to 5% of the statutory allocation depending on the size of the Emirate council and the number of member LGAs.
Administrative charges	Support the MLG's management of the allocation process	1% of the LGAs statutory allocation

Although not cited by officials and not shown in many of the monthly allocation tables as a mandatory deduction (Table 2), the allocation of 0.5 percent of each LGA's statutory allocation to the PHC agency can also be identified as mandatory.

A key issue related to many of these deductions is the value that LGAs receive for the services that are financed by the deductions. In other words, what type of accountability is there for these services and how do local governments perceive the value of those services? The first key point is that there is little to no accounting for

Exhibit 5. Deductions as a Share of Total Payments–Bauchi



the services that the SUBEB, pension fund, and LGSC training and support provide: no report on the number of teachers paid, the number of pension disbursements, or the number staff who participate in training programs. In spite of this, local government officials' opinions of the value of these services vary. For example, most, but not all, feel they do get value for money for the SUBEB and training deductions. On the other hand, few to none felt they get value from the pension deductions; in fact, many complained that the gratuity had not been paid for two or three years.

In Bauchi, beyond the mandatory deductions, several "non-mandatory" deductions are also made through the JAC. These include deductions for services that are spread across all LGAs and deductions for services that are specific to an individual LGA such as bank loans for infrastructure or "Joint projects"—projects of more regional interest undertaken in whole or in part on the LGA's territory with state and LGA contributions (see Section 3.3, Capital Projects). The incidence on the overall allocations is significant, as shown in ***Exhibit 5***, Deductions as a share of total payments. In fact, during the sample period analyzed (July, September, and October 2010), the total deductions accounted for more than 50 percent of the allocations to LGAs, with non-mandatory deductions ranging from 46 percent to 18 percent. As a result, many LGAs ran a deficit with the MLG, causing the MLG to withhold large portions of the allocations; i.e., MLG made minimal direct payments/transfers to LGAs. Some LGAs reported that the amounts transferred barely allowed them to cover their personnel costs. Furthermore, the nature of many of the non-mandatory deductions appeared questionable. Deductions across all LGAs included additional payments to the Bauchi SUBEB, the head of the civil service for a recruitment exercise, a peace and reconciliation activity, a flat security allowance, the auditor general for local government, payment to a Globe FM reporter to Saudi Arabia, payments to private entrepreneurs for services and supplies, and numerous others.

In interviews with LGA staff, most local officials appeared to generally know about the nature of the mandatory deductions and several indicated that joint project funding was deducted, referring to physical infrastructure projects. However, no one was aware of the nature of the non-mandatory deductions described above.

The nature and level of these deductions raise several issues. During the study, the team was not able to confirm the nature of the services actually received by each local government. For example, one flat deduction across all LGAs was labeled renovation of women's centers as per a federal directive. However, none of the LGAs that were interviewed could confirm that their women's center had been renovated recently. The recent auditor general report in Sokoto and subsequent court case (see Section 3.1) underscore the importance of relationship between deductions and the actual value of services received by an LGA. In addition, the deductions constitute expenditures by the LGA, and from their volume and individual size, they represent a considerable portion of LGA expenditures. According to the law, the LGA chairman is empowered to approve expenditures up to N100,000 and the council from over N100,000 to N1,000,000. Most of the non-mandatory deductions are larger than N100,000 and many are over N1,000,000. Yet, the decisions are made at the JAC meeting with only the LGA chairman present, rather than being made by the full LGA council, as in the case of other expenditures as provided by the law. It appears that this procedure circumvents the intent of local government legislation by depriving councils of their legitimate role. Finally, the volume of un-budgeted deductions significantly disrupts the cash flow of local governments. Several of the interviewed LGAs remarked that the level of non-mandatory deductions prevents LGAs from paying their known operating costs because they frequently receive only enough to pay salaries. It is indeed difficult to encourage sound local management under these conditions.

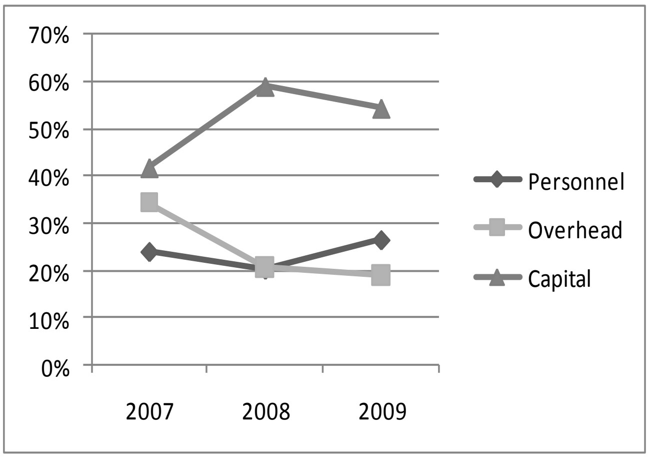
Monitoring and control of LGA financial management is the responsibility of several actors. Every LGA has an internal auditor who, it was reported, monitors transactions either as they occur or at least once a week. The auditors from the Office of the Auditor General for Local Government (AG/LG) conduct external audits on a quarterly basis. In addition, there are other periodic inspection and monitoring visits by the MLG. However, there appears to be several problems with the external audits. First, the AG/LG auditors report that they have difficulty getting complete information and documentation from local governments. Documentation is incomplete and requests for additional information are not met in a timely manner. Furthermore, the AG/LG does not have access to critical information from the MLG such as monthly allocations and deductions to cross reference local government revenue and expenditure entries. Also, many local governments reported that they did not receive audit reports after they had been prepared, and the public has no access to these audit reports, thereby reducing the accountability and management value produced by the normal governmental audit process.

In 2008, Bauchi State government signed into law the three core laws—the Fiscal Responsibility Law, the Public Procurement Law, and the Anti-Corruption Law—aimed at increasing transparency and effectiveness in the use of public resources. However, their implementation at the state and local level remains a serious challenge. Although Bauchi was the first state in the federation to adopt the package of laws, further state effort will be required to build the integrity of public finances and services. The Due Process Office for the state has been established, but the new procedures expose the lack of capacity in other agencies to comply with the laws' requirements. Among the sample of local governments interviewed by the study team, all but one had heard of the two laws. In the four LGAs that are currently receiving LEAD assistance, implementation has begun, including putting in place tender, due process, and assessment committees. However, overall implementation of these important laws is at a low level. When fully implemented, these laws will impact local and state budget and financial management procedures as well as intergovernmental relations, such as the allocation process.

3.2 Local Personnel and Services

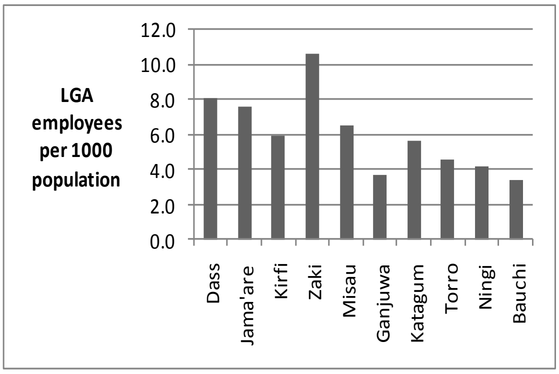
According to budget information from a sample of 10 local governments, Bauchi LGAs spend the largest share of their annual budget on capital projects, although it is unclear that the costs are actually spent on capital projects (see Section 3.3 for detailed description of capital projects) with a substantial share going to personnel (***Exhibit 6***).

Exhibit 6. LGA Expenditure Composition–Bauchi State (actual)



Staffing patterns appear to vary widely across the LGAs in the study sample, ranging from 10.6 employees per thousand population in Zaki to 3.3 in Bauchi LGA. This is surprising to the extent that one would expect higher staffing levels in the larger cities where service needs generally tend to be more complex and larger. In fact, staffing is closely inversely correlated to LGA size and, therefore, LGA revenue as discussed in the previous section. With smaller LGAs receiving higher per capita revenues because of the allocation criteria, they are able to spend relatively more on personnel (***Exhibit 7***).

Exhibit 7. LGA Staffing (2010 budgets)



Within personnel expenses, on average 70 percent of staff are found in service departments, as shown in ***Table 3***. Based on available budgetary information, the health sector accounts for the largest portion of staff. However, the education department personnel do not include teachers that are paid through the deduction at the state level for SUBEB. Although the number of staff that are funded by this deduction was not available, from the amount deducted—approximately 20% of the statutory allocation—one can assume that the LGA contribution to education is similar to, if not more than, its contribution to the health sector. The personnel management department includes the LGA administrative staff, councilor payments, and payment to certain religious and traditional figures.

Table 3. LGA Personnel by Department (2010)

LGA	Personnel Management	Finance	Ag & Nat Res.	Primary Health	Works and Housing	Education and Social	Budget and Economy
Bauchi	24%	7%	8%	38%	9%	11%	4%
Dass	22%	6%	13%	29%	13%	16%	2%
Ganjuwa	14%	4%	14%	30%	15%	20%	4%
Jama'are	29%	5%	8%	24%	13%	14%	8%
Katagum	22%	10%	7%	27%	13%	16%	5%
Kirfi	19%	6%	8%	34%	12%	14%	6%
Misau	15%	6%	10%	35%	13%	13%	8%
Ningi	20%	6%	10%	26%	14%	17%	6%
Torro	15%	6%	10%	31%	11%	23%	3%
Zaki	14%	7%	10%	28%	20%	16%	5%

Although the personnel contributions to key services are significant, several sectoral and donor project officials spoke about the performance of the LGA staff. For example, in the primary health care service of one LGA, 69 percent of the staff are category 6 and below, meaning that they are unskilled workers recruited to fill, in some cases, skilled or semi-skilled positions. It would appear that LGAs have prioritized the employment of local citizens to fill these positions over hiring qualified candidates who can provide quality service delivery. This strategy not only reduces the LGA cost in the service, but also reduces the quality of those services.

3.3 Capital Projects

LGAs undertake two types of capital projects: their own initiated projects and joint projects shared with the state. LGA projects are generally identified through some consultation with citizens whether through community meetings with LGA service departments or with councilors. In addition, there is new emphasis in LGAs assisted by the LEAD Project in developing community priorities—projects identified during community meetings to increase the participation of citizens in the process. LGA-initiated projects typically include school construction or renovation, health facility renovation or construction, rural road and bridge construction, sanitation facilities, rural electrification, market facilities, or purchase of agricultural inputs (seed, fertilizer, draft animals, etc.). In Bauchi LGAs in 2010, 25 percent of the budgeted capital projects were in health, whereas 20 percent were in education and works and housing each. While capital projects consume the majority of budgeted resources, it is difficult to tell how many are actually implemented. During interviews, LGA staff were not able to produce a list of budgeted projects they had actually completed during 2010.

Joint projects are initiated by the state and typically include infrastructure of more regional importance such as road networks and educational or health facilities that serve a larger population (i.e., more than only one LGA). Recently, joint projects have been identified during the State Empowerment and Economic Development Strategy planning process. Contracting and management of these projects is carried out by the state, and funding is deducted by the MLG as part of the allocation process in proportion to the benefit received by the participating LGAs. Joint project implementation is monitored by the Ministry of Budget and Economic Planning (MBEP).

Although local governments acknowledged the kinds of joint projects that have been provided, they complained, almost universally, about the joint project process. Complaints included the lack of consultation in all phases (from design through construction), lack of notification when projects are completed, and lack of information about the cost of projects to the LGA. Joint projects are not budgeted by the LGA, but funds are deducted through the allocation process. At the same time, in Bauchi, it is difficult to identify the specific volume of funds that are spent on joint projects. Several LGAs reported that they were instructed to report the difference between the budgeted statutory allocation and the amount actually received as capital projects, whether it was in fact joint projects or non-mandatory deductions described in Section 3.1.

3.4 Planning and Budgeting

The local government budget process is described by most local officials as “incremental,” meaning that budget estimates are largely based on the previous years’ budgets. Indeed in Bauchi, the budget format does not even use prior years’ actual revenue and expenditure as a reference point for current budgets; instead, the format references prior approved budget estimates, which in fact vary significantly from actual performance. Some local governments have prepared Local Empowerment and Economic Development Strategies that inform the budget process, particularly in identifying community projects. However, as a more general condition, the budget process is not connected to a strategy from a service, community, or higher level of government perspective. The process begins with notification from the MLG about the estimated allocations that form the basis of the LGA budget. Subsequently, service departments are responsible for preparing their respective operational and, in some cases, capital projects budgets.

At the state level, MBEP is theoretically responsible for translating national strategy to the state level and developing state strategies. The MBEP reports that it has no connection with local planning officers and does not intervene at the local level except to monitor joint projects. At the local level, the general practice also does not provide for a strategic approach to budgeting for overall local government and specific service operations and there is little to no coordination with other service agencies. The service orientation, aside from capital improvements, is based more on maintaining the status quo of operations rather than seeking service improvements. In an intergovernmental system with many shared responsibilities for service delivery, the lack of strategy and coordination can only produce ineffective and inefficient service delivery.

In education, Bauchi State has lagged behind most of the country and the region. The 6 percent adult literacy rate is the lowest in the country, and the 18 percent numeracy rate is the lowest, except for Sokoto State.[6] Although a substantial amount of LGA personnel expenditure and capital projects are devoted to this sector, local governments report little to no communication and coordination with the SUBEB in either teacher deployment or primary school construction and renovation. The LGEA has no formal link to the LGA budget process and there is no accounting for the teachers' salaries that are covered by the mandatory SUBEB deduction, hence no check for the LGA between the salaries paid and the actual deployment. The USAID-funded Nigeria Education Initiative (NEI) has recently begun a process of community-based forums to develop evidence-based education priorities. As a result, LGAs are beginning to respond to the initiative in areas such as teacher deployment and school facilities improvements. This is a promising development, but not yet formally integrated in the local government budget process.

In the health sector, LGAs also expend considerable resources on personnel and facilities, yet lack a strategic approach to defining priorities and lack coordination with the Primary Health Care Development Agency. A variety of Ministry of Health (MOH) and donor-funded programs in areas such as vaccinations and maternal and child health reach to the local level and theoretically request LGA co-funding at a 50–50 level. However, this funding does not always appear in budget estimates and budget implementation. The MOH's recently completed strategic planning process included significant participation of local government officials as a way to increase their commitment to health programs. As stated earlier, local governments also contribute to the operations of the PHCDA through a deduction from their statutory allocation at the state level. The PHCDA reports that releases of this funding from the state are sporadic—unpredictable funding is a key problem for the agency, although LAC allocations for the months studied for this analysis show the PHCDA deductions.

3.5 Findings

Below are the key findings for the study of intergovernmental flows for service delivery in Bauchi State. Some of the findings result from the constitutional provisions and federal legislation pertaining to local government, but many are the result of the specific institutional framework and practice in Bauchi State, and furthermore some are the result of local government practice.

[6] National Population Commission and RTI International. *Nigeria: Demographic and Health Survey (DHS) EdData Profile, 1990,2003, and 2008*, May 2011, p. 1

1. Assignment of responsibilities for local services is complex, often over-lapping, and generally disempowers local governments

Although the 1999 Constitution outlines the local government responsibilities in the Fourth Schedule, several recent federal initiatives (PHC and UBE) impose federal- or state-level solutions to local services and, in many cases, responsibilities remain unclear. Furthermore, the practice particularly in Bauchi of the non-mandatory deductions and joint projects, deprive LGAs of their rightful role in decision making and constitutes a disincentive for proactive local management. This problem is exacerbated by poor coordination in planning among all stakeholders and a weak LGA budget process. At the same time, LGAs generally do not take initiative to coordinate and act strategically where they could.

2. The statutory allocation process through the JAC is not fully transparent and deprives LGAs of meaningful resources and budgetary control

- Allocation criteria favor smaller LGAs that calls into question the meaning of an equitable distribution system
- The deduction process in the JAC is approved only by political representatives with no review by technical representatives
- The considerable volume of non-statutory deductions is not well founded—they do not appear to be linked to actual services or expenditures—and deprives LGA councils of their role in budgetary decision making
- The unpredictability of revenue flows makes financial and project planning in LGAs very difficult
- The relationship between the mandatory deductions and services received by LGAs is not clear or well accounted

3. Capital project planning in LGAs lacks meaning because of the dearth of resources and state insistence on joint projects in which LGAs have no initiative

Although budget estimates indicate a high proportion of capital expenditures, the unpredictable and meager flow of resources does not permit many locally initiated capital projects. Furthermore, it is not clear if the amount identified as capital projects in the calculation of actual expenditures is really used for capital projects. Finally, the way joint projects are initiated and managed deprives LGAs of a real role in deciding how their capital resources can be most effectively used.

4. Local governments have prioritized providing employment over qualifications in service staffing

Over the years, staffing decisions have tended to not focus on qualifications and service needs, focusing instead on creating jobs for residents, particularly those with low skill levels. Hence, the quality of services is difficult to improve.

5. Information flow and availability hampers the process at many points at both state and local levels

- Information is generally not available to public or stakeholders about the deduction process and net allocations

- Deductions for SUBEB in relation to school needs and salary roles is not clear
- There is inadequate information for citizens about LGA services and projects, including implemented projects

6. The incremental nature of the budget system and lack of coordination weaken the LGA impact on local service improvement and diminish responsiveness to public needs

- There is little discussion about strategies and priorities within sectors and with the public for the preparation of LGA budgets. However, initial results from LEAD and other USAID projects supporting local services show promising options for engagement and transparency.
- LGAs receive inadequate information about allocations and deductions for budget preparation
- LGA staff use poor revenue and expenditure forecasting techniques, weakening the realism of budget estimates
- There is no coordination with the state MBEP on development priorities

7. Poor monitoring and control in intergovernmental relations and at local level weaken accountability

- AG/LG activities are disconnected from MLG
- Auditors have difficulty performing audits of LGAs because of poor documentation and slow LGA responses to questions
- Audit reports not routinely shared with LGAs
- The community has little visibility into the LGA finance and budgeting system

8. IGR is a minor, nearly insignificant part of local revenue flows

IGR is a very small portion of total LGA revenues but could be higher, based on international comparisons and improvements in pilot activities under LEAD that show the potential for significant collection increases with the introduction of better governance practices. Nevertheless, IGR is not likely to be a major source in the current legislative framework, given the volume of allocations from the federal government.

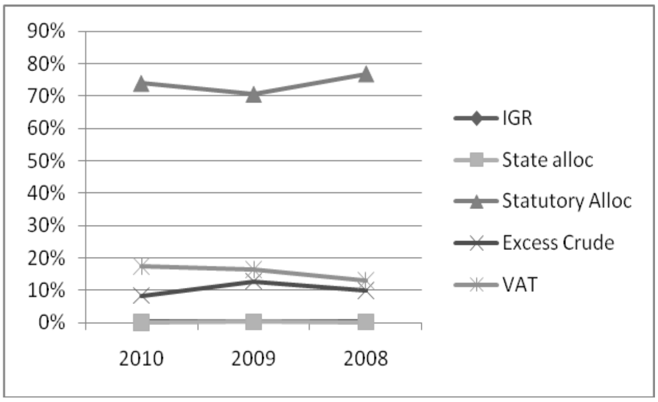
IV. Intergovernmental Flows for Local Services: Sokoto State

Sokoto State, in the Northwest region of Nigeria, comprises 23 local governments and a total population of approximately 4.1 million people (2010).[7] The LGAs range in size from Gada and Gwadabawa, the largest (with populations estimated at 322,000 and 254,000, respectively) to Gudu and Tureta, the smallest (with populations estimated at approximately 104,000 and 75,000, respectively).

4.1 Local Government Finance

The revenue composition in a sample of 12 Sokoto LGAs reflects the predominance of the statutory allocation at 71 percent to 77 percent of total revenues, followed by other federal sources (***Exhibit 8***). State allocations, generally less than N2 million per year per LGA, represent less than 1 percent of total revenues.

Exhibit 8. LGA Revenue Composition–Sokoto



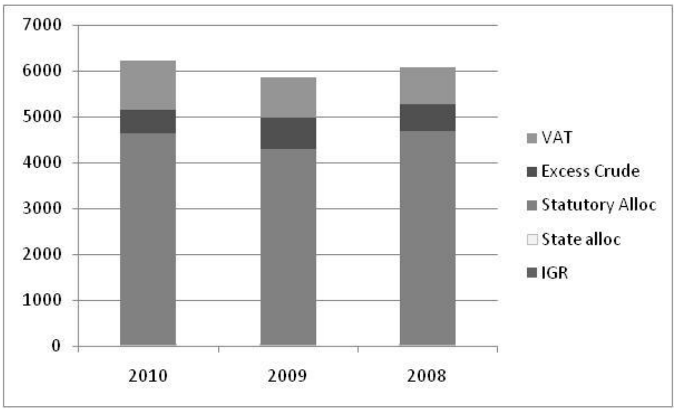
Also noteworthy is the insignificance of IGR, which accounts for less than 1 percent of total revenues. In interviews, LGA officials generally tended to overestimate the contribution of their IGR, frequently estimating IGR as 1 percent to 7 percent of total revenues. Currently, IGR consists of more than 130 different taxes, fees, and commercial proceeds. Except for a few that have rates set by the state or fixed in legislature, the local council is responsible for establishing rates and collections. Service departments collect fees related to their services and remit them to LGA revenue officers. Revenue officers collect all other IGR sources. If the revenue base for local governments is to expand, it will undoubtedly be in this area. There have been promising results in recent IGR mobilization programs under the LEAD Project, which first guides LGAs to focus on the most relevant and potentially important resources, and then introduces improved management practices, including a dialogue with the public. However, IGR will likely never be a significant resource in comparison with the flows from the Federation Account.

[7] 2006 National Census with estimated 2.3% annual growth rate, Source: http://data.un.org/CountryProfile.aspx?crName=NIGERIA#Summary

Revenue levels per capita appear to be fairly stable with little variation in composition or levels over the 3-year period (***Exhibit 9***). They are also marginally higher than Bauchi per capita LGA revenues.

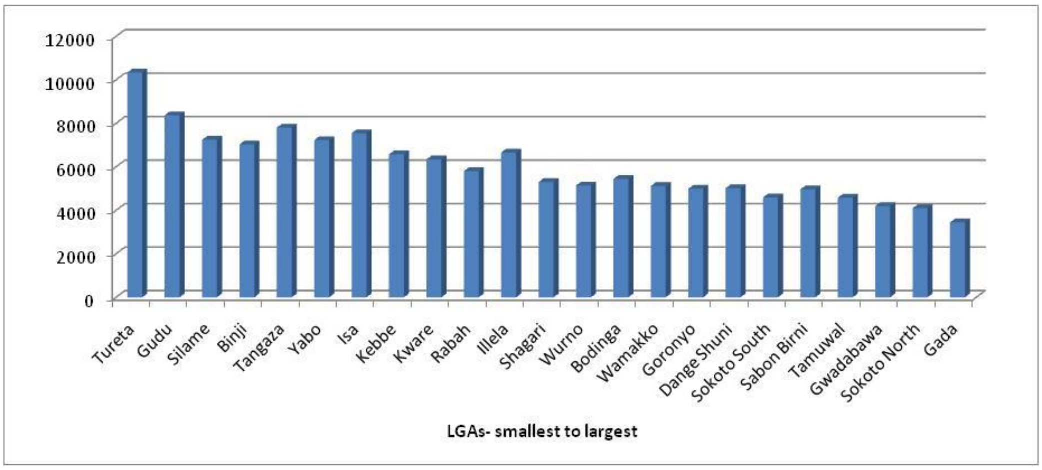
As required by the 1999 Constitution, Sokoto has established a Joint Allocation Committee (JAC) to oversee the distribution of Federation Account transfers. All LGA chairmen, representatives of the MLG and other agencies such as the accountant general and the auditor general for Local Government sit on the JAC. The JAC is responsible for approving the allocation and deductions to LGAs. Several LGA secretaries reported that in earlier years, the LGA received statements of the LGA allocations including the statutory amounts and deductions. However, they have not received them in more recent years. Some reported that the chairman received a statement but this was not transmitted to the local government administration.

Exhibit 9. Average LGA Revenue Sources–Sokoto (Naira per capita)



According to the commissioner of Local Government, the JAC currently uses allocation criteria that track the criteria used by the Federation Account. Although the commissioner reported that he is not comfortable with the criteria, most LGA officials interviewed indicated they feel LGAs get their fair share. As in the case of Bauchi, the result of the application of the criteria in 2010 favored smaller LGAs (see ***Exhibit 10***). The smallest LGA, Tureta, received almost three times more per capita than the largest LGA, Gada.

Exhibit 10. Statutory Allocations to Sokoto LGAs 2010 (Naira per capita)



The JAC is also responsible for ensuring the mandatory deductions required by federal and state laws (Table 4).

Table 4. Mandatory Deductions: Sokoto State

Deduction	Purpose	Basis
SUBEB–primary education	Fund the salaries of primary school teachers	Equal to teacher salary payroll in the LGA
Local government pension board	Fund the pension system of retired local government employees	15% of staff salaries
Primary school pension board	Fund primary school teachers' pensions	2% of total allocations
Training Fund	Support training activities sponsored by the Local Government Service Commission	1% of total allocation
Sultanate Council	Support the functioning of the traditional authorities in the state	3% of the total allocation
Joint projects	Local government share of joint projects	15% of total allocation

The study team was not able to obtain data about the monthly deduction process and amounts deducted for each LGA. However, some of the LGAs interviewed stated that they receive a monthly statement of deductions and enter them into the LGA accounting ledger. In this way, the deductions are treated as an LGA expenditure and within the normal accounting process. At the same time, several other local officials reported that they had no information about the actual amounts of the deductions.

A key issue related to many of these deductions is the value that LGAs receive for the services that are financed by the deductions. In other words, what type of accountability is there for these services and how do local governments perceive the value of those services? The first key point is that there is little to no accounting for the services that the SUBEB, pension fund, and LGSC training and support provide: no report on the number of teachers paid, on the number of retirees who are paid their pension, or on the number staff who participate in training programs. In spite of this, local government officials' opinions of the value of these services vary. For example, most, but not all, feel they do get value for money for the SUBEB and training deductions.

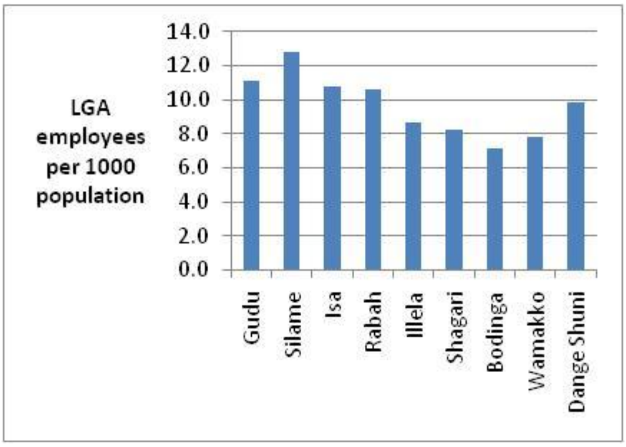
In May 2007, the Sokoto auditor general undertook an audit of the Joint Account which produced several significant findings. First, the report stated that several deductions, noted as percentages, had been created under various laws over time, but that the overall amounts had not been harmonized; hence, there where conflicts in the actual amounts that were authorized as deductions. The audit also found irregularities in payments, including unlawful payments totaling N4.7 billion over four years to the Secretary of State government; underpayment to the State Emirate Council (actual payment less that the reported payment); unauthorized payment of 1 percent to the LGSC for training; diversion of funds for construction and rehabilitation for "personal and undisclosed" purposes; and irregularities in the United Bank for Africa's management of the Joint Account Bank account. As a result of the audit, many of the legislative conflicts that were identified were corrected and a case was brought to court (currently before the Supreme Court) against the governor at the time. The audit report underscores the importance of a proper legislative basis for the JAC and the allocation process and for its sound and transparent management.

A special committee has been formed in the State House of Assembly to study whether the FRL and the PPL should be tabled for consideration by the House of Assembly. Not surprisingly then, several of the local governments interviewed knew little about the laws. Only one indicated that the LGA had taken steps to implement some of the provisions of the laws.

4.2 Local Personnel and Services

According to budget data from a sample of 10 local governments, in 2010, Sokoto LGAs spent the largest share of their annual budget on capital projects, almost 60 percent and approximately 25 percent on personnel. Sokoto staffing patterns do not vary as widely across LGAs as those in Bauchi. At the same time, staff/population ratios in Sokoto are higher than in Bauchi, signifying greater staffing in LGAs. Staffing in the sample of local governments ranged from 12.8 employees per thousand in Silame, a small LGA, to 9.9 in Dange/Shuni, a large LGA (***Exhibit 11***). In other words, staffing size is somewhat correlated to population size, and hence to available resources (see the previous section), but not as strongly as in Bauchi.

Exhibit 11. LGA Staffing



Seventy-six percent of staff in the sample of local governments are assigned to service departments and only 24 percent to administrative departments (***Table 5***). The health sector is the largest in terms of staff numbers, followed by education and social development. However, the education department personnel do not include teachers that are paid by SUBEB through the mandatory deduction. Although the number of teachers funded by this deduction was not obtained by the study team, one can assume that the LGA contribution to education is similar to, if not higher than, the contribution to the health sector in terms of staffing.

Table 5. LGA Staffing by Department

LGA	Personnel Management	Finance	Agriculture and Natural Resources	Primary Health	Works & Housing	Education and Social
Bodinga	11%	11%	16%	36%	15%	10%
Dange/Shuni	10%	17%	16%	21%	17%	19%

LGA	Personnel Management	Finance	Agriculture and Natural Resources	Primary Health	Works & Housing	Education and Social
Gudu	16%	10%	18%	15%	21%	20%
Illela	20%	19%	10%	23%	17%	11%
Isa	13%	14%	19%	23%	19%	12%
Rabah	16%	14%	14%	23%	13%	20%
Shagari	15%	14%	13%	29%	17%	13%
Silame	11%	9%	15%	34%	14%	17%
Wamakko	13%	11%	9%	35%	14%	18%

Although personnel contributions to key sectors are significant, the quality and number of staff appear to be a problem. Many of the LGA sector staff lack the knowledge, experience, and background that are required for their current positions. One program reported that a survey of the health sector found that only 40 percent of heath workers are qualified for their positions. The SUBEB indicates that only about 65 percent of teachers are qualified. It is trying to encourage teachers to get the National Certificate of Education to improve qualifications. The presence of ghost workers in education was also identified as an issue, although the SUBEB indicates that it periodically makes "table" or cash payments to control for ghost workers, although there is no penalty for education secretaries responsible for misstated teacher roles. Furthermore, because the SUBEB deduction is a fixed percentage of the statutory allocation, there is no way to compare the allocation to the actual need. Indeed, several of the LGA officials interviewed indicated that general overstaffing is a serious issue in LGAs and constitutes one of the main challenges to proper LGA management.

4.3 Capital Projects

Capital projects constitute the largest share of LGA expenditures in Sokoto and are visible signs to citizens of development. LGAs undertake two types of capital projects—their own initiated projects and joint projects shared with the state. LGA projects typically include school construction or renovation, dispensary construction, boreholes, feeder roads, and rural electrification. They are generally identified through some consultation with the community, whether community consultations with LGA service directors or with councilors. In addition, there is a new emphasis in LGAs assisted by the LEAD Project in developing community priorities—projects that are identified during community meetings to increase citizens' participation in the process. For example, in Bodinga local government, 23 projects identified through the community priority-setting process were placed in the LGA's annual budget. Overall, among the sample local governments, 52 percent of budgeted capital projects were in the works and housing department, whereas 19 percent were in education and social development.

Joint projects, those typically with shared state funding and frequently with a more regional impact, are funded on the LGA side with a 15 percent deduction from the statutory allocation. Projects are initiated in one of two ways—joint consultation with the MLG or the submission of a list to the MLG, with the assistance of the state chapter of the Association of Local Governments of Nigeria. Joint projects have included inter-LGA roads, housing, dispensaries, and mosques. Local officials indicated that the joint project process of identification and implementation is characterized by communication and collaboration with the MLG. Teams from the state government come to monitor project implementation and inform the LGA of their visits.

4.4 Planning and Budgeting

Most local officials in Sokoto described the local government budget process as "incremental," meaning that budget estimates are largely based on previous years' budgets. The budget format includes prior years' actual revenue and expenditure as a reference point for current budgets which links budget estimates to actual performance to some degree. The process begins with instructions from the MLG that includes the estimated allocations (statutory, VAT, and excess crude) and targets for personnel expenditures and capital projects that form the basis of the LGA budget. Subsequently, service departments are responsible for preparing their respective operational and, in some cases, capital projects budgets. After the LGA's submit their budgets, they are asked to come to the MLG to defend the budget.

The LGA budget is not connected to a strategy from a service, community, or higher level of government perspective. At the state level, the MBEP is theoretically responsible for translating national strategy to the state level and developing state strategies. The MBEP reports that it has no connection with local planning officers and does not receive the MLG budget circular. From the MLG's perspective, LGAs are autonomous and do not need direction from the MBEP. At the local level, the general practice also does not provide for a strategic approach to budgeting for overall local government and specific service operations and there is little to no coordination with other service agencies. The service orientation, aside from capital improvements, is based more on maintaining the status quo of operations rather than seeking service improvements. In an intergovernmental system in which there are many shared responsibilities for service delivery, the lack of strategy and coordination can only produce ineffective and inefficient service delivery.

In education, Sokoto has lagged behind most of the country and region. The adult literacy rate of 8 percent is the lowest in the country except for Bauchi State and the numeracy rate of 14 percent is the lowest.[8] A substantial LGA resources are devoted to education in terms of staff and capital projects, local government officials' description of the relationship with SUBEB ranged from cordial to fair, to non-existent. SUBEB is responsible for all resource allocation decisions, including teacher deployment and school construction or renovation. The SUBEB planning process primarily involves the education hierarchy from school management committees and

[8] Op cit, National Population Commission and RTI International, p.1

LGEAs to district heads and the board members. At the local level, the LGEA has no formal link to the LGA budget process. The USAID-funded NEI project has recently begun a process of community based forums to develop evidence-based education priorities. LGAs are beginning to respond to the initiative in areas such as teacher deployment and school facilities improvements. This is a promising development, but not yet formally integrated in the local government budget process.

In the health sector, LGAs also expend considerable resources on personnel and facilities, yet frequently fail to focus on qualifications in staffing decisions and coordination and sustained support for MOH initiatives. A variety of programs such as routine immunizations and maternal and child health are implemented through local services and request LGA co-funding. However, funding support is variable across LGAs and rarely is included in LGA budgets. This reportedly places the responsibility of health workers to pay for some of the operating costs (e.g., fuel) themselves if they are to fulfill their service role. The USAID-funded Targeted States High Impact Project (TSHIP) has helped local health services develop a costed work plan, but these have not yet been integrated into the LGA budget process.

4.5 Findings

Below are the key findings for the study of intergovernmental flows for service delivery in Sokoto State. Some of the findings result from the constitutional provisions and federal legislation pertaining to local government, and many are the result of the specific institutional framework and practice in Sokoto State. Furthermore, some are the result of local government practice.

1. Assignment of responsibilities for local services is complex, often over-lapping, and generally disempowers local governments

Although the 1999 Constitution outlines local government responsibilities in the Fourth Schedule, several recent federal initiatives (PHC and UBE) impose federal or state-level solutions to local services and, in many cases, responsibilities remain unclear. This problem is exacerbated by poor coordination in planning among all stakeholders and a weak LGA budget process. At the same time, LGAs generally do not seize the initiative to coordinate and act strategically where they could.

2. The statutory allocation process through the JAC is not fully transparent

- Allocation criteria favor smaller LGAs, which calls into question the meaning of an equitable distribution system
- The deduction process in the JAC is approved only by political representatives with no review by technical representatives
- The relationship between the mandatory deductions and services received by LGAs is neither clear or well accounted

3. Local governments play a key role in planning capital projects, those that are funded by the LGA and joint projects

LGAs are able to identify the specific projects they have implemented and joint projects are implemented only with LGA approval.

4. Local governments have prioritized providing employment over qualifications in service staffing

Over the years, staffing decisions have tended to not focus on qualifications and service needs, focusing instead on creating jobs for residents, particularly those with low skill levels. Hence, the quality of services is difficult to improve.

5. Information flow and availability hampers the process at many points at both state and local levels

- Information is generally not available to the public or stakeholders about the deduction process and net allocations
- Deductions for SUBEB in relation to school needs and salary roles are not clear
- There is inadequate information for citizens about LGA services and projects, including implemented projects

6. The incremental nature of the budget system and lack of coordination weaken the LGA impact on local service improvement and diminish responsiveness to public needs

- There is little discussion about strategies and priorities within sectors and with the public for the preparation of LGA budgets, but initial LEAD and other USAID projects' results show a promising option for engagement and transparency
- LGA staff use poor revenue and expenditure forecasting techniques, weakening the realism of budget estimates
- There is no coordination with the state MBEP on development priorities

7. IGRs are a minor, nearly insignificant part of local revenue flows

IGR is a very small portion of total LGA revenues but could be higher, based on international comparisons and improvements in pilot activities under LEAD that show the potential for significant collections increases with the introduction of better governance practices. Nevertheless, IGR is not likely to be a major revenue source in the current legislative framework, given the volume of allocations from the federal government.

V. Recommendations

Our recommendations are drawn from the findings in Bauchi and Sokoto states. Because of the common federal framework for local government and somewhat similar practice, the findings are generally applicable to both states, although the specific solutions and degree of application might be different. However, some recommendations are specific to a single state because of the nature of the issues identified in the analysis. The recommendations cover a range of actions from policy and legislative reform to establishing new management procedures and building local capacity. Based on the opinions of many people interviewed and on experience in several other countries, policy reform and capacity building must move forward together. Currently, local officials feel disempowered and reluctant to change because of the policy framework, while policy makers have little confidence in local capacities to manage effectively. Moving forward to improve governance and service to citizens will require progress on both fronts.

5.1 Budgeting and Planning

- Train councilors on the local government's role in service provision with the objective of making them more proactive stakeholders and plan more strategically. The training could underscore the local role in service delivery and identify where the LGA has authority to act and where it can improve performance through better coordination with other actors.
- Improve the effectiveness of the budget process at both the state and local levels. At the state level, realistic projections of revenue transfers and mandatory deductions can be provided to LGAs at the beginning of LGA budget preparation. At the local level, more effective forecasting techniques for IGR and services will provide more realistic and proactive budgets.
- Introduce participatory strategic planning to mobilize the community and identify priorities for annual budgeting. There have been some interesting models under the USAID-funded projects (LEAD, TSHIP, and NEI) that can be further adapted to more general planning.
- Formalize mechanisms for seeking/incorporating input from citizens and sectors into the budget preparation process. As in the previous recommendation, general citizen input and local level planning in health, education, and projects have already begun on a pilot basis, but the challenge now is to formalize the budget process so that the outputs from the planning processes have a structured way of getting into LGA budget development and are discussed along with other budgetary elements.
- Strengthen coordination between MBEP and LGAs in budget preparation to ensure that state policy priorities are better reflected in local budgeted actions.

5.2 Allocation Process and IGR

- The principal recommendation would be to abolish the JAC and replace it with direct transfers, as was done prior to 2002, and have LGAs directly pay what are currently the mandatory deductions. Although this step may not be immediately possible without amending the constitution, states can make progress in this direction by making the allocation process as transparent as possible. Other more specific recommendations on this issue follow.
- In Bauchi, discontinue the non-statutory deduction practice by reducing the deductions to only those that are mandated by law or that, in the case of joint projects, have been specifically approved by local council decision.
- In Sokoto, modify the SUBEB deduction from a fixed percentage of the statutory allocation to an amount based on actual teacher roles.
- Review the allocation criteria as to the objectives that are to be achieved by the transfers. The current process favors small LGAs because of the equity (equal share) nature of many of the criteria. In the short term, the basis of the criteria could be changed from equal share to per capita share to introduce greater equity into the transfer system. Over the longer term, the criteria should be reviewed as to those that are meaningful and for which there is adequate data on which to base allocation.
- Establish a technical committee under the JAC (if the JAC is maintained), with the permanent secretary of MLG as chair and local government secretaries and/or finance directors as members. The task of the technical committee would be to review proposed allocations and deductions before the JAC official action.
- Expand access to information about allocations to LGAs. Expanded access to information could be accomplished through a variety of channels, including a website (as the Revenue Mobilization Allocation and Fiscal Commission at the federal level currently does), local media, and by providing specific statements to the LGA administration.
- Review the current legislative framework for IGR, specifically the authorized revenue sources, to determine new sources that can contribute to LGA revenue generation.

5.3 Transparency and Accountability

- In Sokoto state, domesticate the FRL and PPL, by focusing on implementation of key provisions, including the establishment of the implementing bodies at the state and local levels. In Bauchi, pursue further implementation at the state and local levels. Full implementation of these laws will require, first, awareness building to strengthen political will and build public support; and second, capacity building to ensure that local personnel are capable of proper procurement and financial management.
- Promote LGA service staffing that focuses on qualifications and proper staffing levels. A key to improving service delivery is having qualified staff in

place and ensuring that public resources are going to needed positions. Future staffing decisions can be made on an analysis of what is required for service improvement in terms of qualifications and the positions that should be filled.

- State services that receive funds from mandatory deductions (e.g., LGSC, pension funds, and SUBEB) should provide an accounting of services provided to LGAs. Since these services use public funds, some minimal accounting should be provided (e.g., for SUBEB, the number and salaries of teachers; or for the LGSC, the number of LGA staff who participate in training events).
- LGAs should publish mid- and end-of-year accounting of capital projects. Capital projects are a critical indicator to citizens of what the LGA has accomplished. Mid- and end-of-year statements of ongoing and completed projects compared with budgeted projects could build citizen confidence and enhance transparency in local service delivery.