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Examining the Implication of Politics of Local Government Financial Autonomy on Developmental Outcomes in Nigeria: Evidence From Error Correction Model (ECM)

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Abstract

This study evaluates the impact of politics of local government financial autonomy on the developmental outcomes in Nigeria. The study relies on secondary data gathered from Statistical Bulletin and World Development Indicator (WDI) from 1991 to 2021. The study finds that, variables employed are not stationary at level and there is evidence of long run convergence in the model. Using the error correction model (ECM), the study finds that, given the politics that revolves around local government financial autonomy, it would have had insignificant positive impact on development even if the state Governors have not encroached into local governments' financial allocation in Nigeria. Also, the study reveals that fiscal decentralization has insignificant positive impact on development in Nigeria. Therefore, to have an effective governance at lower tiers of government, the study concurrently recommends both local government financial autonomy and extension of control of corruption at lower tiers of government in Nigeria.

Key words: Local government; financial autonomy; ECM; Nigeria

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1. INTRODUCTION

Governance remains one of the major issues affecting the growth and development in African countries. Nigeria, the most populous and popular nation, has experimented different models of local government administration before and after its independence. During colonial era, local governments which were the offshoot of native authority system has assess to a wide range of financial as well as administrative autonomy as colonial government allowed each region to control the activities of local government under its jurisdiction or region such that there were the native authority law in northern Nigeria of 1954; the 1952 Western region local government law and the 1950 Eastern region local government ordinance. There were formidable structures. There were formidable structures existent before or created by British government to administer the country and these structures preceded regionalism of 1946. Following the 1966 and 1967 military interventions of the first and second republics respectively and the subsequent restructuring of the country from four regions to twelve states which has presently culminated into 36 States, 774 Local Governments and Federal Capital Territory (FCT), with different geographical size and endowed resources, population, religion and ethnic compositions across each state and local government. These vertical differential characteristics of each local government did not prevent military government from establishing in 1976, a unifying Local Government System in 1976 and declared Local Government officially as the third tier of government with autonomous assigned responsibilities and power to raise funds as initiated by Babangida Local Government Reforms (1986-1992) known as Political Bureau Report. It is also comprised of Dasuki Report, which was initiated by Buhari administration of (1983-1985) as entrenched in 1999 constitution. Though, it still remained paradoxical that military rule, an undemocratic government, laid the foundation for democratic and autonomous local government system in the Nigerian federalism. Considerable interest is however, being showing by stakeholders for more than four decades of that comprehensive reform of local government system. Among the earliest major comprehensive study on African local governments after 1976 local government reforms in Nigeria is (Mawhood, 1983), which singled out and qualified local government in Nigeria with brightest hopes and prospects. Similarly, the World Bank's reports entitled "Decentralisation in Developing Countries" also brimmed with such optimism for the local government system in Nigeria (Rondinelli, Nellis and Cheema, 1983) because local government has the government at local or grassroots level, its creation in any country and particularly in Nigeria are to facilitate rapid grassroots development, decongest the responsibilities and burden of federal government, provide two-way communication, promote democratic participation, provide valuable political education, ensure even development in terms of provision of basic social services deliveries, serves as hedge against over-concentration of power, maintenance of law and order (Ntiwunka, 2011) as it is generally acknowledged that no central government can effectively conduct administration at local level from the centre.

However, it seems that a number of observers were pessimistic since the financial and administrative autonomy granted by the military government to this tier of government has been emasculated by the successful civilian governments who supposed to operate on the mantra of ensuring local democratic governance. This singular act may have put in jeopardy the developmental achievement of 1976 unifying Local Government System which is now 46 years old. The fact that stakeholders had called for many major reviews of the local government system after 1976 and the recent call for "restructuring" are, in itself, a further proof that all has not been well with local government system in Nigeria. Surprisingly, serial activities and sometimes agitation by local governments across six geo-political zone and stakeholders to influence the actions and policies of governments to reclaim their autonomy and freedom from the encroachment of upper tier of government were unsuccessful. These efforts to liberate local governments from State governments who have already encroached into the constitutional mandate and activities of local government have been usually truncated. It appears in practice that the reluctance from the State governments to ensure local government autonomy in their various jurisdictions has reinforced the perspective of state-dominance of Local Government control which had been in existence before the issuance Local Government Reforms Guidelines of 1976. This perspective posited that fiscal federalism is the transfer of taxing power and responsibilities to state/ provincial/ regional government which now determine the destiny of municipal/local government by making reference to system of Local government in some developed countries like that of United State America which is the source of the Nigerian constitution. The arguments for or against local government autonomy have remained one of the most contentious issues in Nigerian polity and this controversy is reinforced by Nigerian constitution. Acknowledging the fact that, there is no country in the World with political system where the operation local units is totally independent of the federal or state government. For example, in the United State of America and Switzerland, federal and state government do contribute to the local government fiscal sustainability in an intergovernmental fiscal relation model. The Nigerian case is special in the sense that, Section 7 of the 1999 Nigerian constitution as amended grants autonomy to local government and the same constitution maintained that the affair of local government shall be determined by state government. This study therefore, investigates the gamut of developmental implications of lack of financial autonomy of Local Government in Nigeria from 1991 till 2021.

2. LITERATURE REVIEW

This section is subdivided into three reviews namely: conceptual review; theoretical review and empirical review. Each of this review is discussed extensively in this literature. Conceptual review elaborates on the conceptual analysis of various concepts as they relate with the study. The study further reviews existing literature and theories within the purview of the subject matter.

2.1 Conceptual Review

2.1.1 Local Government

The concept of local government is one which has been intellectually explicated by various scholars in social sciences with no consensus. Some scholars (Olowu 1988, Adeyeye, 2005) have distinguished local government depending on the political arrangement of the nation, i.e. unitary or federal system. Adeyeye (2005) defines local government in the unitary state as "non-sovereign community possessing the legal right but which are essentially administrative agents of the central government". In other words, local government is an appendage to the central government in a unitary state. The United Nations Office for Public Administration on the other hand, sees Local Government as:

> A political subdivision of a nation (in a federal system) state, which is constituted by law and has substantial control of local affairs including the powers to impose taxes or to exact labour for prescribed purposes. The governing body of such an entity is elected.

Understandably, the constitution of the governing body of local government in a unitary state is either appointed or elected, depending on the discretion of the central government. However, as indicated in the latter definition, election is a requisite for the existence of local government as far as a federal arrangement is concerned. Meanwhile, the Guideline for Local Government Reform (FGN, 1976) defines local government as:

> Government at local level exercised through representative councils established by law to exercise specific powers defined areas. These powers should give the council substantial control over local affairs as well as the staff and institutional and financial power to initiate and direct the provision of services and to determine and implement projects so as to complement the activities of the state and federal government in their areas, and to ensure, through devolution of functions to these councils and through the active participation of the people and their traditional institutes, that local initiative and responses to local head and conditions are maximised.

This comprehensive definition underlines to a reasonable extent, what local government should be as far as federalism is concerned. Simply put, local government is expected to do exactly what government (like the federal and state) does at the local level based on the constitutional stipulations. Blair (1977) in more elaborate terms conceived local government as an institution which has;

> a resident population occupying a defined area that has a locally authorized organization and governing body, a separate legal entity, the power to provide certain public or governmental services and a substantial degree of autonomy having legal or actual power to raise part of its revenue.

And also, according to Oni (1999);

> local government is that level of government exercised through representative councils, established by law to exercise geographical area with common social and political ties. These powers should give the council substantial control over local affairs as well as the staff, and institutional and financial powers to initiate and direct the provision of services and to determine and implement projects so as to complement the activities of the State and Federal government in their areas,

Through the foregoing definitions of local government are certain salient or central features are apparent which include the fact that local government:

a. Operates at the local or level;

b. Operates within a defined territory;

c. Has a relative autonomy or independence as defined by the law;

d. Has a range of constitutionally delineated functions to perform;

e. Has its council composed of elected representatives

2.1.2 Local Government Autonomy

Autonomy entails the state of being self-governing or independent. The Oxford Advanced Learners Dictionary of current English (1974) defines "autonomy" as "right of self-government or freedom". In the words of experts, what is really required is not complete independence for local government but a degree of "substantial autonomy" as evidenced by fiscal and administrative independence subject only to requirements of state law and supervision. Autonomy in a federal system, as averred by Nwabueze (1983), means that each government enjoys a separate existence and independence from the control of the other government. The emphasis is that each level of government must exist not as an appendage of another government but as autonomous entity in the sense of being able to exercise its own will in the conduct of its affairs free from direction of another government. Meanwhile, Local government autonomy as opined by Ogunna (1996), can be seen as the freedom of the local government to recruit and manage its own staff, raise and manage its own finances, make by-laws and policies, and discharge its functions as provided by law without interference from the higher governments. Also, in his contribution, Davey (1991) gives an elaborate view that:

> Local autonomy is primarily concerned with the question of responsibilities, resources and discretion conferred on the local authorities. As such, discretion and responsibility are at the core of local government. It presumes that local government must possess the power to take decisions independent of external control within the limits laid down by the law. It must garner efficient resources particularly of finance to meet their responsibilities, put differently; local autonomy is the freedom of independence in clearly defined issue, areas, as well as separate legal identity from other levels of government.

Numerous definitions and the ones reviewed make it explicit that the autonomy of local government entails the existence of local government equipped with the necessary apparatus of what makes a government as far as finance, administrative and functional responsibilities are concerned, thereby, freeing local government from unnecessary interference from other levels of government. Besides, the concept of autonomy revolves around three pillars derivable from these definitions - political, administrative and financial autonomy. Political autonomy supposes the existence of local government as a tier of government on its own having its creation clearly defined by law. The administrative aspect bothers on the ability and capacity of local government to carry out certain functions allocated to it by the constitution without any hindrance or interference from higher governments. Fiscal or financial autonomy is the bedrock and most important aspect of local government autonomy (Okechukwu and Edwin, 2013). It entails the "freedom to impose local taxation, generate revenue within its assigned sources, allocate its financial and material resources, determine and authorize its annual budgets without external interference" (Okafor, 2010). However, local government autonomy is not absolute. In other words, local government autonomy can only be exercised to such extent defined by law. This does not make local government an appendage to or subservient to higher governments.

2.1.3 Development

The concept of development is one whose debate has lasted for decades. Seers (1972) raised the basic question about the meaning of development succinctly when he asserted questions about a country's development, such as "what has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond this constitutes period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result development even if per capita income doubled".

Economic development in the classical era meant: "an increase in the absolute size of annual production regardless of the size of the population, or an increase in the economy's real income over a long period of time". Consequently economic development is seen as a process whereby an economy's real national income increases over a long period of time. This definition is inconsiderate of population growth. If a rise in real income is accompanied by faster growth in population there will be no economic development but retardation or stagnation. This explains a frontal definition of development in terms of economic and social welfare which focuses on standard of living of people. Economic development is supportive and it involves increased per capita income and creation of new opportunities in education, healthcare, employment sectors. Development is of limited significance if it does not lead to economic welfare. Economic development implies increased per capita income and reduced income inequalities and satisfaction of the people as a whole.

Further, for understanding the meaning of development Goulet (1971) considers three core values as an important basis and guideline:

• Life Sustenance: The ability to meet basic needs: There are some basic needs (food, shelter, etc.) that are essential for improvement in the quality of life. So, the basic function of economic activity is to overcome people from misery arising from shortage of food, shelter.

• Self-esteem: A second universal component of the good life is self-esteem. Self-esteem refers to self-respect and independence and for development of a country it is an essential condition. Developing countries need development for self-esteem to eliminate the feeling of dominance.

• Freedom: A third universal value is the concept of freedom. Freedom here is understood as a fundamental sense of release from freedom, freedom from misery, institutions and dogmatic beliefs. It refers to freedom from three evils of want, ignorance and squalor.

Singer and Ansari (1977) define development in terms of decrease of poverty. Economic development meant not simply an increase in the GNP of a country but rather a decrease in poverty at an individual level. Probably the best indicators of poverty are low food consumption and higher unemployment. If these problems are effectively dealt along with growth of GNP and with a reasonably equitable income distribution then and only then can genuine economic development be talked of'. To Todaro (1977), economic development includes both economic and social choices and suggests that improving standard of living must guarantee economic and social choices and argues that development should "expand the range of economic and social choice to individuals and nations by freeing them from servitude and dependence, not in relation to other people and nation states, but also to the forces of ignorance and human misery".

In the United Nations Human Development Report (1994) the same idea was highlighted. The report asserts: "Human beings are born with certain potential capabilities. The purpose of development is to create an environment in which all people can expand their capabilities, and opportunities can be enlarged for both present and future generations. The real foundation of human development is universalism in acknowledging the life claims of everyone. Wealth is important for human life. But to concentrate on it exclusively is wrong for two reasons: First, accumulating wealth is not necessary for the fulfillment of some important human choices. Second, human choices extend far beyond economic well-being".

Through the foregoing, it is clear that an agreement on what economic development entails differ and as such, we can conclude that aggregate and per capita real incomes are not sufficient indicators of economic development, rather, economic development is concerned with economic, social and institutional mechanisms that are necessary for bringing large scale improvements in the levels of living of a nation. In other words, economic development is not about a mere increase in the gross national products but an overall improvement in economic, social and institutional structures which have attendant effects on the life of the common man.

3. POLITICS OF LOCAL GOVERNMENT FINANCIAL AUTONOMY IN NIGERIA

The general nature of the way politics is being played in Nigeria suggests the politics of prebendelism characterized by complex network of clientelism and patronage and this has formed the foundation of the party structure most especially political party in power either at local government, State government or Federal government levels. Those that have access to cash, majorly governors or serving politicians of the ruling party determine the party convention, party candidates who ultimately wins elections into the vacant offices of the available institutions at different levels. This is possible because they determine the voting pattern after hand picking the delegates who usually tradeoff their votes with monetary compensation at the primary election and any attempt to resist this undemocratic behavior, even though such is not common, would lead to chaotic situation. The three known methods adopted by the party towards electing candidates are direct primary, indirect primary and consensus candidate and are all greatly influenced by cash and juicy political appointment in conjunction in a murky way should the consensus candidate is adopted.

At local government level, it is a notorious fact that virtually all the local governments across all the states in

Nigeria are run by caretakers appointed by the governors. These caretakers serve at the governors' pleasure as they can be removed without making reference to anyone. In most instances, local government laws enacted by state Houses of Assembly contain ridiculous provisions which give powers simply to the governor or the state House of Assembly to suspend and/or remove an elected or appointed official of local governments without any further delay. The tenures are mostly limited to two years which grant elected officials no opportunity to plan and implement any meaningful development project in the community within their lifespan. Local government duties entrenched in Schedule 4 of the Constitution are taken over by the state as well as taking over the funding sources for these functions. This usurpation of powers, functions as well as revenue sources is also done under purportedly validly enacted laws.

Each time governor decides to hold local government election, the result is usually predictable and could be announced many months before the date fixed for the election. The ruling party virtually wins all the seats and just allocates a few councillorship positions to the opposition party. Hardly will the opposition be returned as the winner of a chairmanship position. State electoral commissions are anything but independent as they represent the worst in the annals of electoral umpireship. They make no pretense of their mission as their members evidently morally challenged and reprehensible individuals who claim to have education. Further, by the ethically challenged political party system, the governor is the leader of the party at the state level and no one serves as a nominated representative to fly the flag of the party without his endorsement. Thus, all those who fly the flag of the party are his nominees.

Local governments are constitutionally expected to be run with two main arms of government – executive and legislature. However, local government budgets may be prepared at the local government level under guidelines given by the state government; they are defended before either the ministries of the local government and or the State House of Assembly. This relegates the legislative function of the councillors who constitute the legislative arm of the local government. And when money comes through the joint account, governors make the decision on what to release to the local governments while keeping, managing or mismanaging the remaining sums of money clandestinely. Also, the little that is released to the local governments face the hurdle of state level approvals for major procurements. These hurdles are duly enshrined in state level laws and procurement policies and practices.

Unlike under military government, local government is not under the control of federal government per se under the civilian government except in some cases of making sure of federal policies such as primary education, primary health care and public works are present at the local level. Federal government funded projects at local government level under this arrangement are roughly see the light of the day because the amount each local government receives is a function of the level of support it gave the party in power during election. Local government that is under the control of opposition party, or located in a state where governor is not loyal to the ruling party even if they belong to the same party may be less funded by the federal government. Even if the political party controlling the government at the center is the party controlling both the state government and expectedly all the local governments in the State, the Governor has being always exploiting the constitutional provision of Joint Account Allocation Committee (JAAC) to have the lion share of the allocated fund to the local governments while leaving the meagre amount for their recurrent expenditures. This has been the tradition in Nigerian politics and this is because governors do not notably recognize local governments as third tier of government as entrench in the 1999 constitution as amended but as state government appendages. The essence of local government system has been totally emasculated by the governors in Nigeria. It must also be noted however, that there is no political system that, the local units operate completely independent of the central or regional or state government. In the United State of America and Switzerland for example, federal and state government do contribute to the fiscal sustainability of the local government in an intergovernmental fiscal relation model.

The recent Nigerian Financial Intelligence Unit (NFIU) guidelines bordering on the financial management of Nigerian local government is aimed at strengthening the financial integrity of the local governments, tackle corruption and abuse of power by the State Governments, and mitigate the money laundering malady at the grassroots level. Effective from June 1, 2019, it was reported that the guidelines prohibited banks from allowing any transaction from any account belonging to local governments without the funds or allocation reaching at first a particular local government account. Any bank violating this is culpable of local and international sanctions. The daily limit of cash withdrawal was pegged at N500,000, while other transactions are expected to be done with the use of valid cheques or electronic funds transfer. Consequently, according to the guidelines, the Joint Account Allocation Committee (JAAC) is expected to serve as a point for the receipt of allocations, but not disbursement. All financial transactions by local governments are expected to be registered and tracked by the NFIU through an e-payment module. These new guidelines have generated applause from various quarters, including stakeholders, and policy makers as well as the civil society. This development seems to be a breath of fresh air into the rather dull and uninspiring campaign against official corruption in Nigeria. However, there are several issues involved in this directive. At the broad level, this directive is only addressing a part of the constitutional guarantee that Nigerians citizens should enjoy democratically elected and run local government councils. This is the essential guarantee of Section 7 of the Constitution of the Federal Republic of Nigeria 1999 as amended. This guarantee is furthered by the provision for State Electoral Commissions modelled after the Independent National Electoral Commission which are saddled with the responsibility of organizing local council elections. State legislatures are under obligation, as expressly stated in the constitution, to make a law which further translates this democratic guarantee into action.

What implications does this new directive have? Can it achieve its stated objectives? Are there any legal challenges and impediments that will impede the implementation of the directive and thwart its purpose? So many questions begging for answers. The central objective of this study is not to provide answers to these questions but to empirically examine the index of local government financial autonomy and economic development nexus in Nigeria.

4. DATA DESCRIPTION, MODEL SPECIFICATION AND ANALYTICAL TECHNIQUES

4.1 Data Description

The nature of data used in the study is time series. It has been established in the literature that time series process if not checked for stationarity could lead to spurious results, hence the need to check for the order of integration using convectional methods of Augmented Dickey Fuller (ADF) or Philips Perron (PP). when two or more time series processes are integrated of the same order, they need to be tested to establish whether they converge in the long run; hence the need for to subject them to maximum likelihood cointegration test of Johansen Juselius (1991). Error correction mechanism is however, used in the estimate procedure so as to classify the coefficients into short run effects and long run effects (Joselius, 2003).

4.2 Model Specification

In this study, fiscal decentralisation level is the sub-national governments' allocated funds for capital spending as a fraction of the total government capital spending while local government financial autonomy is the fund allocated for capital spending to the local government as a fraction of the total government capital spending (Davoodi and Zou, 1998). Barro (1990), which presents the production function where the interaction between private capital and government services are elegantly captured are employed in this study.

$$Y_t = \mathrm{A}K_t^a G_t^b \qquad (1)$$

where Y_t stands for GDP per capital, K_t is the private capita and G_t is the government spending on various services, t is time period and A is innovation. Adopting Davoodi and Zou (1998), by assuming that government spendings are carried out at three levels of government: local government spending (l); state government spending (s) and federal government spending (f) and G_t is now consolidated government spending on public services which serves as inputs to private sector and thereby enhancing its innovative capital. It is this complementarity that will promote growth. Taking these this into consideration, equation (1) then becomes

$$y_t = \mathrm{A}k_t^a\ l_t^b\ s_t^c\ f_t^d \qquad (2)$$

where a, b, c and d measure parameter efficiency. The resulted production function in equation (2) is a Cobb Douglas production function which exhibits constant return to scale as a + b + c + d = 1 and 0 < a, b, c, d < 1. The model specification adopted in this study burrows a leaf from the work of Xie, Zou and Davoodi (1998) and specified as:

$$y_t = p_0 + y_{t-i} + p_1 taxr_t + p_2 fide_t + p_3 lgau_t + p_4 X_t' + \varepsilon_t \qquad (3)$$

Where tar_t is tax rate; fid_t captures fiscal decentralisation while lga_t represents local government autonomy X_t', is the vector of control variables, is error term, p_0 is intercept while i = 1, 2, …… n.

Table 1
Sources and Definition of variables

Variables	Code	Definition	Sources
Log (GDP per Capital)	LGDPK	Gross Domestic Product (GDP) per capital	World Development Indicator (WDI)
Log (Local Government Autonomy)	LLGAU	Ratio of allocated fund for capital expenditure to Local Government to consolidated capital allocation	Statistical Bulletin published by CBN
Log (Fiscal Decentralisation)	LFIDE	Ratio of allocated fund for capital expenditure to sub-nationals to consolidated capital allocation	Statistical Bulletin published by CBN
Log (Tax rate)	LTAXR	Tax rate	
Log (Primary School Enrolment Rate)	LPRYE	Number of students enrolled for primary school education	World Development Indicator (WDI)
Log (General Health Expenditure)	LHEXP	General government expenditure on health	World Development Indicator (WDI)
Log (Inflation)	LINF	Price index on goods and services	World Development Indicator (WDI)
Log (Trade Openness)	LTOPN	(Import+Export)/GDP	World Development Indicator (WDI)

4.3 Analytical Techniques

In order to guarantee the adequacy of regression analysis, it is of utmost importance to test if the series in the regression equation contain unit roots problems. In other words, to test if there is the tendency for the analysis to generate spurious regression. The order of integration of each time series must be identified which implies that the variables must be capable of being differenced. Dickey and Fuller (1979) assumed that given a series, an appropriate method of testing for the order of integration of series, where $y_t = py_{t-1} + \varepsilon_t$ is based on the null hypothesis that p = 1, which is the unit root. The test is premised on the estimating regression equation of the following forms:

$$\Delta y_t = \alpha_0 + \delta y_{t-1} + \varepsilon_t \qquad \text{(without trend)} \qquad (4a)$$
$$\Delta y_t = \alpha_0 + \beta t + \delta y_{t-1} + \varepsilon_t \qquad \text{(constant with trend)} \qquad (4b)$$

If the above is augmented, as is the case of augmented Dickey Fuller (1981) (ADF) test which is specified when is autoregressive to eliminate serial correlation of errors. Both the DF test and ADF test assume that is independent, identically distributed with mean zero and constant variance. The transformed ADF models become:

$$\Delta y_t = \delta y_{t-1} + \sum_{i=1}^{p} \gamma_i y_{t-1} + \varepsilon_t \qquad \text{(no intercept or linear trend)} \qquad (5a)$$
$$\Delta y_t = \alpha_0 + \delta y_{t-1} + \beta t + \sum_{i=1}^{p} \gamma_i y_{t-1} + \varepsilon_t \qquad \text{(intercept with trend)} \qquad (5b)$$

Where ε_t for t = 1….N is assumed to be Gaussian white noise. The number of lagged terms i is chosen to ensure that errors are uncorrelated. The above ADF representations will be tested with the examination of the student t-ratio for δ, As in the case of the DF test, ADF test tests the negativity of δ in the ordinary least square regression of equations 4 and 5 in favor of the alternative $\delta < 0$ implying that y_t is integrated of order zero that is stationary. If the null hypothesis cannot be rejected then y_t cannot be stationary.

4.3.1 Cointegration Analysis

The fundamental assumption when experimenting with cointegrating is that the variables are integrated of the same order. The set of variables X_t is said to cointegrate if a linear combination of the variables will result in a stationary process i.e. I(0). For a regression relation to be robust and meaningful, the various series must be cointegrated; if otherwise, the equation retains its unit root property and hence spurious regression. In this study however, Johansen cointegration approach is achieved by determining the cointegration the number of cointegrating relations. This is achieved by carrying out Johansen cointegrating Likelihood Ratio test by comparing the Likelihood Ratio test statistics with the critical values.

4.3.2 Error Correction Modeling

Assuming the variables tested above cointegrate, the study then estimate the Error Correction Model (ECM), which incorporate the short run dynamics of the model:

$$\Delta y_t = u_{t-1} + p_0 + \Delta y_{t-i} + p_1 \Delta taxr_t + p_2 \Delta fide_t + p_3 \Delta lgau_t + p_4 \Delta X_t' + \varepsilon_t \qquad (6)$$

Where is the one period lagged value of the error from the cointegrating regression; Δ denotes the first difference operator; ε_t is white noise with zero mean and constant. Equation 7 gives the ECM with which the variable can be regressed like the one generated by an I(0) process and the result being statistically significant.

5. ANALYSIS OF EMPIRICAL RESULTS

5.1 Trend and Pattern of Local Government Autonomy

The study employed revenue allocated for capital expenditure to calculate local government autonomy and fiscal decentralisation indexes. The history and degree of local government autonomy in Nigeria is captured with the plot below and it depicts that both the local government autonomy and fiscal decentralisation indexes are increasing and it became manifest from the year 1999 up till 2015 however, it started declining from the year 2015 to the year 2020 with exception of local government autonomy which increases marginally from the year 2017 in Nigeria. It should be noted however, that the years 1999 to 2015 were under the administration of a dominant political party known as People Democratic Party (PDP) while the years 2015 to 2020 were under the All Peoples Party (APC).

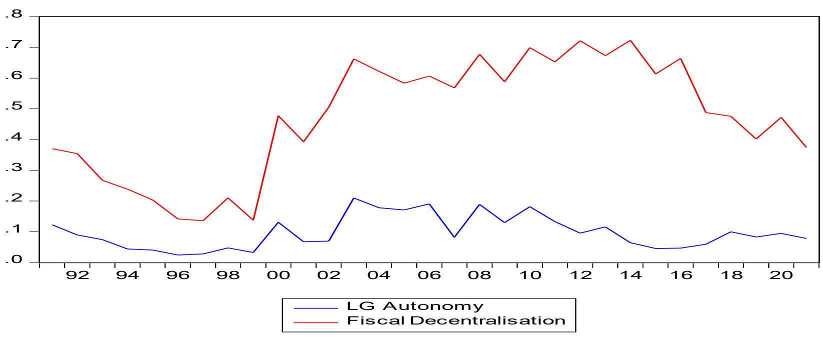

Figure 1
Local Government Autonomy Measure

This reduction may be attributed to the drastic reduction in the federal government revenue which is attributed to the crash in the international oil price during in the period.

5.2 Descriptive Statistics

Table 2 shows the results of descriptive analysis of the data collected for this study. It provides information about sample statistic mean, median, maximum and minimum value and distribution of the sample measured by the skewness, kurtosis, and Jarque-Bera statistics for 31 years given 31 observations. The dependent variable is LGDPK. The result showed that the average value of LGDPK is 12.54303 with variation of 0.242347. The average values of LLAUTO, FISDEC and LTAX are -2.491111, -0.854006, and -0.866862 with standard deviations of 0.597374, 0.518120 and 0.426298 respectively. The standard deviations measured the extent to which the data series dispersed around the mean in the statistical analysis of this study. The skewness of the variable measures the asymmetry of the distribution of the series around the mean. Almost all variables were little bit skewed. LINFLAT and LPRYER are positively skewed while LGDPK, LLAUTO, FISDEC and LTAX are negatively skewed. The variables that are negatively skewed were more than those that are positively skewed which indicated that the data sets had long left tail. Kurtosis measures the peakness or flatness of the data relative to normal distribution. The value of kurtosis indicated that the variables like INFLAT and GHEXP have high peaked or leptokurtic distribution. Being peaked, however, is an indication that, there are very few observations within the country where the median value resided. LGDPK, LLAUTO, LFISDEC, LTAX, LPRYER, and LTOPNES have approximately normal distribution.

The Jarque-Bera (JB) test of normality provides joint hypothesis of Skewness and Kurtosis. It suggests that if the computed P value of a variable is zero or very low and the value of the respective statistic is different from zero, then its residual is not normally distributed. The residuals for all variables normally distributed.

Table 2
Descriptive Statistics

VARIABLES	LGDPPK	LLGAUTO	LFISDEC	LTAX	LINFLAT	LPRYER	LGHEXP	LTOPNES
Mean	12.54303	-2.491111	-0.854006	-0.866862	2.650407	4.504644	-0.507787	3.570004
Median	12.57256	-2.491614	-0.717466	-0.783030	2.502892	4.496520	-0.535128	3.611502
Maximum	12.86190	-1.562215	-0.324385	-0.170157	4.288204	4.626032	0.184015	3.975523
Minimum	12.21950	-3.714656	-1.997030	-1.730933	1.684176	4.365179	-0.807589	3.031221
Std. Dev.	0.242347	0.597374	0.518120	0.426298	0.642900	0.066931	0.260251	0.259668
Skewness	-0.119005	-0.253298	-1.027515	-0.322969	1.177659	0.206678	1.274471	-0.500469
Kurtosis	1.351936	2.189747	2.875212	2.069462	3.757443	2.171845	3.868084	2.488105
Jarque-Bera	3.581485	1.179483	5.475009	1.657385	7.906601	1.106576	9.365461	1.632557
Probability	0.166836	0.554470	0.064732	0.436620	0.019191	0.575056	0.009254	0.442074
Sum	388.8339	-77.22443	-26.47420	-26.87271	82.16262	139.6440	-15.74140	110.6701
Sum Sq. Dev.	1.761960	10.70567	8.053452	5.451890	12.39961	0.134391	2.031922	2.022817
Observations	31	31	31	31	31	31	31	31

5.3 Correlation Matrix

The correlation matrix is carried out along with Variance Inflation Factor (VIF) in order to test for correlation among the independent variables. The correlation matrix shows the correlation between the independent variables which should be in low degree or moderate degree to suggest the absence of multicolinearity between independent variables and supported by the result from VIF which is 2.08. As suggested by Bryman and Cramer (1997), the correlation between each pair of independent variables should not exceed 0.8; otherwise, the variables may be suspected of exhibiting multicolinearity. Multicolinearity is usually regarded as a problem because it means those regression coefficients may be unstable. Moreover, Variance Inflation Factor is employed to support the results of correlation coefficients. The result shows that all possible combinations of the explanatory variables had correlation coefficients, whether negative or positive, were very low and weak. If the correlation coefficient between two variables is one, the variables are perfect substitute for each other and the two cannot be included in a particular model for analysis.

Table 3
Correlation Matrix

VARIABLES	LLGAU	LFIDE	LTAXR	LINFLAT	LPRYER	LGHEXP	LTOPNES
LLGAUTO	1.000000						
LFISDECE	0.745940	1.000000					
LTAX	-0.018464	0.273675	1.000000				
LINFLAT	-0.217229	-0.345490	-0.445253	1.000000			
LPRYER	0.449742	0.282769	0.065388	-0.060760	1.000000		
LGHEXP	0.352227	0.082683	-0.211421	0.044866	0.620976	1.000000	
LTOPNES	0.255743	-0.085173	-0.012834	-0.121599	0.214671	0.250406	1.000000

5.4 Unit Root Test

In line with the section 4, this study subjects all the time series employed in the model to stationary test. The two types of test employed are Augmented Dickey Fuller (ADF) and Philips-perron (PP) tests and their results are presented in the Table 5. The results confirms that, except LGDPK which is I(2) series, differencing the variables once will guarantee stationarity without trend, hence variables are I(1) series.

Table 5
Unit Root Test

	At Levels		At First Differences		At Second Differences		
Variables	**ADF**	**PP**	**ADF**	**PP**	**ADF**	**PP**	**Order in Integration**
LGDPK	-0.8617	-0.703	-2.5805	-2.597696	-7.14481	-9.509368	I(2)
LLAUT	-2.5085	-2.621	-7.7239	-7.661442	-----------	--------------	I(1)
LFIDE	-2.5005	-1.649	-3.5777	-7.314036	-----------	--------------	I(1)
LTAX	-2.5428	-2.467	-7.5472	-7.445471	-----------	--------------	I(1)
LINFL	-4.1005	-2.358	-------	-5.757976	-----------	--------------	I(0)/I(I)
LPRYE	-2.6138	-2.422	-4.5807	-4.895532	-----------	--------------	I(1)
LHCEX	-2.0155	-2.050	-6.9525	-6.946461	-----------	--------------	I(1)
LTOPN	-2.4736	-2.517	-6.1135	-8.951463	-----------	--------------	I(1)

5.5 Test of Cointegration

The results of the unit root test reveal that all the variables are random walk processes. It does not however, imply that in the long run the variables could express long run convergence, hence there is to subject it to cointegration test. This study adopts Johansen Cointegration test because it is a more powerful cointegration test especially when multivariate models are involved; it allows cointegration test to be done especially when variables involved are of different order of integration and also give room for the application of error correction model (ECM). The result of the Johansen Cointegration reveals at least 5 cointegrating equations at 5% significant level.

Table 6
Cointegration Test

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.843129	185.4275	125.6154	0.0000
At most 1 *	0.727001	131.7099	95.75366	0.0000
At most 2 *	0.693718	94.05955	69.81889	0.0002
At most 3 *	0.630531	59.74533	47.85613	0.0026
At most 4 *	0.447998	30.87036	29.79707	0.0375
At most 5	0.328158	13.63847	15.49471	0.0934
At most 6	0.069991	2.104257	3.841466	0.1469

5.6 Interpretation of Result From Short-Run Error Correction

The study adopts parsimonious model for analysis from the overparameterized error correction model by adopting general to specific (GTS) methods. The lag period has been consciously selected to enable a robust identification of the pattern of dynamics in the models and to avoid unwarranted restriction that a too short lag length could generate. The overparameterized model is reduced to parsimonious model by eliminating the variables with insignificant coefficients successfully based on the imposition on these variables, zero coefficients as they bear low t-statistics of less than 2.0 or high probability values of more than 0.05. the final parsimonious model are therefore, arrived at with appropriate variables that are relevant in explaining the short-run behavior of the model. The resulting Schwartz Criteria (SC) and standard error are used to guide parsimonious reduction. A fall in both values indicates model parsimony.

The contemporaneous and the lag variables presented are in their log-linear form which implies that the coefficient estimates in all the models are elasticities showing the percentage change in the exogenous variables that condition the percentage change in the endogenous variable proxied by GDP per Capital. The result reveals that the resulting Schwartz criterion reduced from -3.417990 in the overparameterized model to -3.552464 in the parsimonious model. This is an indication that model parsimony is being achieved as the variables are being reduced. The coefficient of error correction term (ECM) is inline with theory as it is negatively signed and statistically significant with a low probability value of 0.423. its value in absolute term is 0.17 indicating that 17 percent of the disequilibrium in the GDP per Capital in the previous year is corrected in the next period. A year period lag value of GDP per Capital has an implication that 1 percent increase in a year period lag value of GDP per Capital will significantly lead to an approximate 41 percent reduction in the current value of GDP per Capital.

Table 7
Parsimonious error correction model
Dependent Variable: D(D(LGDPPK)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.001589	0.005311	-0.299250	0.7684
D(D(LGDPK(-1)))	-0.406663	0.190355	-2.136343	0.0475
D(LLGAU(-1))	0.022193	0.012905	1.719709	0.1036
D(LLGAU(-2))	0.019281	0.012261	1.572589	0.1342
D(LFIDE)	0.029827	0.021092	1.414138	0.1754
D(LHEX)	-0.059450	0.032538	-1.827078	0.0853
D(LINFL)	-0.035998	0.015757	-2.284543	0.0355
D(LPRYE)	-0.307560	0.131819	-2.333209	0.0322
D(LTAX(-2))	0.007408	0.015832	0.467938	0.6458
D(LTOPN)	0.002617	0.025730	0.101711	0.9202
ECM(-1)	-0.173324	0.081060	-2.138214	0.0423

R^2: 0.522047 Adj. R^2: 0.24089 RSS: 0.012686 D.W.:1.46241
F-Stat:1.8568 A.I.C: -4.075830 S.C.: -3.552464 H.Q.: -3.9158

From Table 7, it could be observed that the local government autonomy (LLGAU) assumes expected positive sign which reveals that a positive change in LLGAU variable will lead to a positive change in the GDP per capital. Specifically, 10 percent increase in LLGAU will insignificantly lead to 2 percent and 1 percent increase in GDP per capital in one period lag and two period lag of LLGAU respectively. The implication of this is that, even if State governors have not hijacked the financial resources of the local government, local government financial autonomy will have insignificant positive impact of development in Nigeria. The contemporaneous fiscal decentralization (FIDE), surprisingly, also has insignificant positive impact as 10 percent increase in FIDE will insignificantly increase GDP per capital by 2 percent. The study finds that, the contemporaneous government health expenditure (LHEX), inflation (LINF) and primary school enrolment rate (LPRYE) have significant negative impact of on GDP per capital while contemporaneous trade openness (LOPEN) and a two year lag value of tax rate (LTAX) have insignificant positive impact on development in Nigeria.

6. CONCLUDING REMARK

The sole objective of this study is to assess the politics that revolves around the local government financial autonomy and its implication on the development in Nigeria. The study equally examines the impact of fiscal decentralization on the development in Nigeria. The study relies on secondary data from 1991 to 2021 gathered from Statistical Bulletin published by Central Bank of Nigeria and World Development Indicator (WDI).

The necessary introduction is provided at the beginning of this study. This is followed by the literature review where various concepts and studies on the subject matter are reviewed. Also, discussion on the ongoing politics that surround local government financial autonomy cum the existing relation among tiers of government as well as analysis of empirical results are looked into. The study shows that local government financial autonomy and fiscal decentralization have insignificant positive impact on development. The implication of this is that, even if State governors have not encroached into the financial allocation to local governments, it would still have insignificant developmental impact. The study suspects that, this may be caused by endemic corruption in the Nigerian public sector. The study, therefore recommends concurrently the local government financial autonomy and effective extension of control of corruption at lower tiers of government in Nigeria.

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